1065/package/1990

Department of the Treasury
Internal Revenue Service

1990

U.S. Partnership Return of Income

This package contains the following forms and related instructions—

Form 1065

Schedule D (Form1065)

Schedule K-1 (Form 1065)

Form 4562

Form 8825

Internal Revenue Service
WADC-9999
Rancho Cordova, CA 95743-9999

Official Business
Penalty for Private Use, $300
Do Not Forward

Peel off the label and place it in the address area of the Form 1065 you file. If someone else prepares your return, please give the preparer the preaddressed label and the envelope and ask the preparer to use them. Make necessary corrections on the label.

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1990

Department of the Treasury
Internal Revenue Service

Instructions for Form 1065

U.S. Partnership Return of Income

(Section references are to the Internal Revenue Code unless otherwise noted.)

Paperwork Reduction Act Notice

We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

The time needed to complete and file this form and related schedules will vary depending on individual circumstances. The estimated average times are:

Form	Recordkeeping	Learning about the law or the form	Preparing the form	Copying, assembling, and sending the form to IRS
1065	57 hrs., 24 min.	27 hrs., 35 min.	52 hrs., 59 min.	6 hrs., 42 min.
Schedule D (Form 1065)	5 hrs., 1 min.	2 hrs., 12 min.	5 hrs., 10 min.	48 min.
Schedule K-1 (Form 1065)	27 hrs., 44 min.	10 hrs., 23 min.	25 hrs., 16 min.	4 hrs., 1 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making these forms more simple, we would be happy to hear from you. You can write to both the **Internal Revenue Service,** Washington, DC 20224, Attention: IRS Reports Clearance Officer, T:FP; and the **Office of Management and Budget,** Paperwork Reduction Project (1545-0099), Washington, DC 20503. **DO NOT** send the tax form to either of these offices. Instead, see the instructions on page 2 for information on where to file.

Changes You Should Note

- New **Form 8752,** Required Payment or Refund Under Section 7519, has been developed to figure and report the amount the partnership must pay (or will receive as a refund) if the partnership has in effect an election under section 444 to have a tax year other than a required tax year. The new form eliminates the use of **Form 720,** Quarterly Federal Excise Tax Return, for this purpose. In addition, the **Computation Schedule for Required Payment Under Section 7519** is no longer needed and has been removed from these instructions.
- New **Form 8825,** Rental Real Estate Income and Expenses of a Partnership or an S Corporation, has been developed to report income and expenses from rental real estate activities of the partnership. The new form, which provides space for up to eight rental properties, replaces former Schedule H on Form 1065. The net income or loss from rental real estate activities from Form 8825 is carried to line 2 of Schedule K on Form 1065.
- New **Form 8826,** Disabled Access Credit, has been developed as a result of the addition of section 44 by the Revenue Reconciliation Act of 1990. This allows eligible small businesses to claim a new nonrefundable income tax credit equal to 50% of expenses that are over $250 but not more than $10,250. These expenses must be paid or incurred after November 5, 1990, to enable a small business to comply with the requirements of the Americans With Disabilities Act of 1990. An eligible small business is one with gross receipts of $1 million or less in the previous tax year or one that had not more than 30 full-time employees in the previous tax year.

Examples of expenses eligible for the credit include amounts paid or incurred: **(1)** to remove barriers that prevent a business from being accessible to, or usable by, individuals with disabilities; **(2)** to provide qualified interpreters or other methods of making audio materials available to hearing-impaired individuals; **(3)** to provide qualified readers, taped texts, and other methods of making visual materials available to individuals with visual impairments; or **(4)** to acquire or modify equipment or devices for individuals with disabilities.

- For property contributed to a partnership after October 3, 1989, the Revenue Reconciliation Act of 1989 amended section 704(c) to require the contributing partner to recognize gain or loss on a distribution of such property to another partner within five years of being contributed. The gain or loss is equal to the amount that the contributing partner would have recognized, as a result of the difference between the basis and value of the property upon its contribution, if the property had been sold for its fair market value when distributed.

General Instructions

Note: *In addition to the publications listed throughout these instructions, you may wish to get:* ***Pub. 334,*** *Tax Guide for Small Business;* ***Pub. 535,*** *Business Expenses;* ***Pub. 541,*** *Tax Information on Partnerships;* ***Pub. 550,*** *Investment Income and Expenses; and* ***Pub. 556,*** *Examination of Returns, Appeal Rights, and Claims for Refund.*

The above publications and other publications referenced throughout these instructions may be obtained at most IRS offices. To order publications and forms, call our toll-free number 1-800-TAX-FORM (829-3676).

Purpose of Form

Form 1065 is used to report the income, deductions, gains, losses, etc., from the operation of a partnership.

Who Must File

Every partnership that engages in a trade or business or has income from sources in the United States must file Form 1065. A partnership must file even if its principal place of business is outside the United States or all its members are nonresident aliens.

Religious and apostolic organizations exempt from income tax under section 501(d) must file Form 1065.

A qualifying syndicate, pool, joint venture, or similar organization may elect under section 761(a) not to be treated as a partnership for Federal income tax purposes and will not be required to file Form 1065 except for the year of election. See section 761(a) and Regulations section 1.761-2 for more information.

Real estate mortgage investment conduits (REMICs) must file Form 1066.

Certain publicly traded partnerships treated as corporations under section 7704 must file Form 1120.

Note: *If a partnership return is filed by an entity for a tax year, but it is determined that the entity is not a partnership for that tax year, the consolidated partnership audit procedures of sections 6221 through 6233 will generally apply to that entity and to persons holding an interest in that entity. See Temporary Regulations section 301.6233-1T for details and exceptions.*

Electronic Filing of Form 1065

Qualified tax return filers can file Form 1065 and related schedules electronically or on magnetic media. If the partnership files its return electronically or on magnetic media, it must also file **Form 8453-P,** U.S. Partnership Declaration and Signature for Electronic/Magnetic Media Filing. See **Pub. 1524,** Procedures for Electronic/Magnetic Media Filing of Partnership Returns, Forms 1065, for Tax Year 1990 (Magnetic Tape, Floppy Diskette, or Electronically).

When To File

Generally, a domestic partnership must file Form 1065 by the 15th day of the 4th month following the close of its tax year. A partnership in which all partners are

nonresident aliens must file its return by the 15th day of the 6th month following the close of its tax year.

If you need more time to file a partnership return, file **Form 8736,** Application for Automatic Extension of Time to File Return for a U.S. Partnership, REMIC, or for Certain Trusts, for an automatic 3-month extension. File Form 8736 by the regular due date of the partnership return.

If, after you have filed Form 8736, you still need more time to file the partnership return, file **Form 8800,** Application for Additional Extension of Time to File Return for a U.S. Partnership, REMIC, or for Certain Trusts, for an additional extension of up to 3 months. To obtain this additional extension of time to file, you must show reasonable cause for the additional time that you are requesting. Form 8800 must be filed before the extended due date of the partnership return.

Period To Be Covered by 1990 Return

Form 1065 is an information return for calendar year 1990 and fiscal years beginning in 1990 and ending in 1991. If the return is for a fiscal year, fill in the tax year space at the top of the form.

Note: *The 1990 Form 1065 may also be used if: (1) the partnership has a tax year of less than 12 months that begins and ends in 1991; and (2) the 1991 Form 1065 is not available by the time the partnership is required to file its return. However, the partnership must show its 1991 tax year on the 1990 Form 1065 and incorporate any tax law changes that are effective for tax years beginning after 1990.*

Where To File

Use the preaddressed envelope. If you do not use the envelope, file your return at the applicable IRS address listed below.

If the partnership's principal place of business or principal office or agency is located in ▼	Use the following Internal Revenue Service Center address ▼
New Jersey, New York (New York City and counties of Nassau, Rockland, Suffolk, and Westchester)	Holtsville, NY 00501
New York (all other counties), Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont	Andover, MA 05501
Florida, Georgia, South Carolina	Atlanta, GA 39901
Indiana, Kentucky, Michigan, Ohio, West Virginia	Cincinnati, OH 45999
Kansas, New Mexico, Oklahoma, Texas	Austin, TX 73301
Alaska, Arizona, California (counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo, and Yuba), Colorado, Idaho, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	Ogden, UT 84201
California (all other counties), Hawaii	Fresno, CA 93888
Illinois, Iowa, Minnesota, Missouri, Wisconsin	Kansas City, MO 64999
Alabama, Arkansas, Louisiana, Mississippi, North Carolina, Tennessee	Memphis, TN 37501
Delaware, District of Columbia, Maryland, Pennsylvania, Virginia	Philadelphia, PA 19255

A partnership without a principal office or agency or principal place of business in the United States must file its return with the Internal Revenue Service Center, Philadelphia, PA 19255.

Penalties

A penalty is assessed against the partnership if it is required to file a partnership return and it: (1) fails to file the return by the due date, including extensions, or (2) files a return that fails to show all the information required, unless such failure is due to reasonable cause. The amount of the penalty is $50 for each month or fraction of a month (for a maximum of 5 months) the failure continues, multiplied by the total number of persons who were partners in the partnership during any part of the partnership's tax year for which the return is due. This penalty will not be imposed on partnerships that meet the exceptions outlined in section 6231(a)(1)(B), provided all partners have timely filed income tax returns fully reporting their shares of the income, deductions, and credits of the partnership. A partnership meets the exceptions of section 6231(a)(1)(B) if it is not subject to the consolidated audit procedures of sections 6221 through 6233 (i.e., the answer to Question M is "No"). See Revenue Procedure 84-35, 1984-1 C.B. 509, for details.

Family-farm partnerships, family-owned wholesale or retail store partnerships, co-owners of investment property, etc., may not have to complete Schedules L and M. See the instructions on page 9 for Question N before completing Schedules L and M.

For each failure to furnish Schedule K-1 to a partner when due and each failure to include on Schedule K-1 all of the information required to be shown (or the inclusion of incorrect information), a penalty of $50 may be imposed with respect to each Schedule K-1 for which a failure occurs. The maximum penalty is $100,000 for all such failures during a calendar year. If the requirement to report correct information is intentionally disregarded, each $50 penalty is increased to $100 or, if greater, 10% of the aggregate amount of items required to be reported (and the $100,000 maximum does not apply). See sections 6722 and 6724 for more information.

Unresolved Tax Problems

IRS has a Problem Resolution Program for taxpayers who have been unable to resolve a problem with the IRS. If the partnership has such a problem, write to the partnership's local IRS District Director or call the partnership's local IRS office and ask for Problem Resolution assistance. This office will take responsibility for your problem and ensure that it receives proper attention. Hearing impaired persons who have access to TDD equipment may call 1-800-829-4059 to ask for help from Problem Resolution. Although the Problem Resolution Office cannot change the tax law or make technical decisions, it can frequently clear up misunderstandings that may have resulted from previous contacts.

Accounting Methods

Figure ordinary income by the accounting method regularly used in maintaining the partnership's books and records. Generally, permissible methods include the cash method, the accrual method, or any other method authorized by the Internal Revenue Code. The method used must clearly reflect income. (See section 446.)

Generally, a partnership may not use the cash method of accounting if: **(a)** it has at least one corporate partner, average annual gross receipts of more than $5 million, and it is not a farming business; or **(b)** it is a tax shelter (as defined in section 448(d)(3)). See section 448 for details.

Generally, an accrual basis taxpayer can deduct accrued expenses in the tax year that all events have occurred that determine the liability, the amount of the liability can be determined with reasonable accuracy, and economic performance takes place with respect to the expense. There are exceptions for recurring items.

For long-term contracts (except certain real property construction contracts) entered into after July 10, 1989, taxpayers must generally use the percentage of completion method described in section 460. However, for purposes of the percentage of completion method, the partnership may elect to postpone recognition of income and expense under a long-term contract entered into after July 10, 1989, until the first tax year as of the end of which at least 10% of the estimated total contract costs have been incurred.

Unless otherwise allowed by law, the partnership may not change the accounting method used to report income in earlier years (for income as a whole or for any material item) without first getting consent on **Form 3115,** Application for Change in Accounting Method. See **Pub.**

538, Accounting Periods and Methods, for more information.

Accounting Periods

Under the provisions of section 706(b)(1), a partnership is generally required to have one of the following tax years:

(1) the tax year of a majority of its partners (majority tax year); or

(2) if there is no majority tax year, then the tax year of all of the partnership's principal partners (partners with an interest of 5% or more in the partnership profits or capital); or

(3) if there is neither a majority tax year nor a tax year common to all principal partners, then the tax year that results in the least aggregate deferral of income (see Temporary Regulations section 1.706-1T); or

(4) some other tax year, if: (i) the partnership can establish to the satisfaction of the IRS that there is a business purpose for the tax year; or (ii) the tax year is a "grandfathered" year; or (iii) the partnership elects under section 444 to have a tax year other than a required tax year and to make the payments required by section 7519.

A business purpose for a tax year may be established by showing that the requested tax year is the natural business year of the partnership. Revenue Procedure 87-32, 1987-2 C.B. 396, provides a 25% test for determining whether or not a given tax year is a natural business year. Under the 25% test, the gross receipts for the last 2 months of the requested tax year are divided by the gross receipts for the 12-month period that ends with the last month of the requested tax year. The same computation is also made with regard to the 2 immediately preceding 12-month periods. Generally, if the result of each of these three computations is at least 25%, then the requested tax year is the partnership's natural business year.

Revenue Procedure 87-32 also provides that certain "grandfathered" fiscal years may be retained. Generally, under this provision a fiscal year may be retained if a partnership previously received permission under Revenue Procedure 74-33, 1974-2 C.B. 489 to use a fiscal year (other than a fiscal year that resulted in a 3-month or less deferral of income).

A qualifying partnership may elect under section 444 to have a tax year other than the year required under section 706(b) by filing **Form 8716,** Election To Have a Tax Year Other Than a Required Tax Year. Generally, an election under section 444 may be made only if the deferral period of the tax year elected is not longer than 3 months. Further, a partnership that is a member of a tiered structure, other than a tiered structure that consists entirely of partnerships or S corporations (or both), all of which have the same tax year, may not make or continue an election under section 444.

For a partnership to have an election under section 444 in effect, it must make the payments required by section 7519 and file **Form 8752,** Required Payment or Refund Under Section 7519.

Note: *Under the provisions of section 584(h) the tax year of a common trust fund must be the calendar year.*

Rounding Off to Whole-Dollar Amounts

You may show the money items on the return and accompanying schedules as whole-dollar amounts. To do so, drop any amount less than 50 cents and increase any amount from 50 cents through 99 cents to the next higher dollar.

Recordkeeping

The partnership records must be kept as long as their contents may be material in the administration of any Internal Revenue law. Copies of the filed tax returns should also be kept as part of the partnership's records. See **Pub. 583,** Taxpayers Starting a Business, for more information.

Amended Return

If, after the partnership files its return, it becomes aware of any changes it must make to income, deductions, credits, etc., it should file an amended Form 1065 and an amended Schedule K-1 for each partner. Check the box at Item G(4), page 1, Form 1065. Give a corrected Schedule K-1 (Form 1065) to each partner. Be sure to check the box at Item J(2) of each Schedule K-1 to indicate that it is an amended Schedule K-1.

Note: *If a partnership does not meet the small partnership exception under section 6231(a)(1)(B)(i) or if it is a small partnership that has made the election described in section 6231(a)(1)(B)(ii), the amended return will be a request for administrative adjustment and* ***Form 8082,*** *Notice of Inconsistent Treatment or Amended Return (Administrative Adjustment Request (AAR)), must be filed by the Tax Matters Partner. See section 6227 for more information.*

A change to the partnership's Federal return may affect its state return. This includes changes made as a result of an examination of the partnership return by the IRS. Contact the state tax agency for the state in which the partnership return is filed for more information.

Signatures

General Partner

Form 1065 is not considered to be a return unless it is signed. One general partner must sign the return. If a receiver, trustee in bankruptcy, or assignee controls the organization's property or business, that person must sign the return.

Paid Preparer's Information

If someone prepares the return and **does not charge the partnership,** that person **should not sign** the partnership return.

Generally, anyone who is paid to prepare the partnership return must sign the return and fill in the other blanks in the **Paid Preparer's Use Only** area of the return.

The preparer required to sign the partnership return **must** complete the required preparer information and:

- Sign it, by hand, in the space provided for the preparer's signature. (Signature stamps or labels are not acceptable.)
- Give the partnership a copy of the return in addition to the copy to be filed with the IRS.

Other Forms, Returns, Schedules, and Statements That May Be Required

Forms W-2 and **W-3,** Wage and Tax Statement; and Transmittal of Income and Tax Statements.

Form W-2P, Statement for Recipients of Annuities, Pensions, Retired Pay, or IRA Payments.

Form 720, Quarterly Federal Excise Tax Return. A new 10% excise tax applies to the first retail sale of the following items sold after December 31, 1990, to the extent the sales price exceeds the amounts shown: (1) passenger vehicles, $30,000; (2) boats and yachts, $100,000; (3) aircraft, $250,000; (4) jewelry and furs, $10,000. Form 720 is also used to report environmental excise taxes, communications and air transportation taxes, fuel taxes, manufacturers taxes, ship passenger tax, and certain other excise taxes.

Forms 1042 and **1042S,** Annual Withholding Tax Return for U.S. Source Income of Foreign Persons; and Foreign Person's U.S. Source Income Subject to Withholding. Use these forms to report and transmit withheld tax on payments or distributions made to nonresident alien individuals, foreign partnerships, or foreign corporations to the extent such payments or distributions constitute gross income from sources within the U.S. that is not effectively connected with a U.S. trade or business. A domestic partnership must also withhold tax on a foreign partner's distributive share of such income, including amounts that are not actually distributed. Withholding on amounts not previously distributed to a foreign partner must be made and paid over by the earlier of: **(a)** the date on which Schedule K-1 is sent to that partner, or **(b)** the 15th day of the 3rd month after the end of the partnership's tax year. For more information, see sections 1441 and 1442, and **Pub. 515,** Withholding of Tax on Nonresident Aliens and Foreign Corporations.

Form 1096, Annual Summary and Transmittal of U.S. Information Returns.

Form 1098, Mortgage Interest Statement, is used to report the receipt from any individual of $600 or more of mortgage interest in the course of the partnership's trade or business for any calendar year.

Forms 1099-A, B, INT, MISC, OID, R, and **S.** You may have to file these information returns to report abandonments, acquisitions through foreclosure, proceeds from broker and barter exchange transactions, interest payments, medical and dental health care payments, direct sales of consumer goods for resale, miscellaneous income

payments, nonemployee compensation, original issue discount, total distributions from profit-sharing plans, retirement plans, individual retirement arrangements, insurance contracts, etc., and proceeds from real estate transactions. Also, use these returns to report amounts that were received as a nominee on behalf of another person.

For more information, see the Instructions for Forms 1099, 1098, 5498, and W-2G.

Note: *Every partnership must file information returns if, in the course of its trade or business, it makes payments of rents, commissions, or other fixed or determinable income (see section 6041) totaling $600 or more to any one person during the calendar year.*

Form 5471, Information Return of U.S. Persons With Respect to Certain Foreign Corporations. A partnership that controls a foreign corporation; or that is a 10-percent-or-more shareholder of a controlled foreign corporation; or acquires, disposes of, or owns 5% or more in value of the outstanding stock of a foreign corporation, may have to file Form 5471.

Form 5713, International Boycott Report, is used by persons having operations in or related to "boycotting" countries. The partnership must give each partner a copy of the Form 5713 filed by the partnership if there has been participation in, or cooperation with, an international boycott.

Form 8264, Application for Registration of a Tax Shelter, is used by tax shelter organizers to register tax shelters with the IRS for the purpose of receiving a tax shelter registration number.

Form 8271, Investor Reporting of Tax Shelter Registration Number, is used by partnerships that have acquired an interest in a tax shelter, which is required to be registered, to report the tax shelter's registration number. Form 8271 must be attached to any return on which a deduction, credit, loss, or other tax benefit attributable to a tax shelter is taken or any income attributable to a tax shelter is reported.

Forms 8288 and **8288-A,** U.S. Withholding Tax Return for Dispositions by Foreign Persons of U.S. Real Property Interests; and Statement of Withholding on Dispositions by Foreign Persons of U.S. Real Property Interests. Use these forms to report and transmit withheld tax on the sale of U.S. real property by a foreign person. See section 1445 and the related regulations for additional information.

Form 8300, Report of Cash Payments Over $10,000 Received in a Trade or Business, is used to report the receipt of more than $10,000 in cash or foreign currency in one transaction (or a series of related transactions).

Form 8594, Asset Acquisition Statement, is to be filed by both the purchaser and seller of a group of assets constituting a trade or business if goodwill or a going concern value attaches, or could attach, to such assets and if the purchaser's basis in the assets is determined only by the amount paid for the assets.

Form 8697, Interest Computation Under the Look-Back Method for Completed Long-Term Contracts. Partnerships that are not closely held use this form to figure the interest due or to be refunded under the look-back method of section 460(b)(3) on certain long-term contracts entered into after February 28, 1986, that are accounted for under either the percentage of completion-capitalized cost method or the percentage of completion method. If the partnership owes interest, Form 8697 must be attached to the partnership return. However, if interest is to be refunded, Form 8697 is filed separately.

Forms 8804, 8805, and **8813,** Annual Return for Partnership Withholding Tax (Section 1446); Foreign Partner's Information Statement of Section 1446 Withholding Tax; and Partnership Withholding Tax Payment (Section 1446). File Forms 8804 and 8805 if the partnership had effectively connected gross income and foreign partners for the tax year. Use Form 8813 to transmit installment payments of withheld tax based on effectively connected taxable income allocable to foreign partners. However, publicly traded partnerships that do not elect to pay tax based on effectively connected taxable income do not file these forms. They must instead withhold tax on distributions to foreign partners and report and transmit payments using Forms 1042 and 1042S. See section 1446 for more information.

Form 8822, Change of Address, may be used to inform the IRS of a new partnership address if the change is made after filing Form 1065.

Attachments

If you need more space on the forms or schedules, attach separate sheets. Use the same arrangement as the printed forms. **Show the totals on the printed forms.** Put the partnership's name and employer identification number on each sheet. Also, be sure that each separate sheet clearly indicates the line or section on the printed form to which the information relates.

To assist us in processing the return, we ask that you complete every applicable entry space on Form 1065. Please do not attach statements and write "See attached" in lieu of completing the entry spaces on the form.

Definitions

Partnership.—A partnership is the relationship between two or more persons who join to carry on a trade or business, with each person contributing money, property, labor, or skill and each expecting to share in the profits and losses of the business whether or not a formal partnership agreement is made.

The term "partnership" includes a limited partnership, syndicate, group, pool, joint venture, or other unincorporated organization, through or by which any business, financial operation, or venture is carried on, that is not, within the meaning of the Internal Revenue Code, a corporation, trust, estate, or sole proprietorship. If an organization more nearly resembles a corporation than a partnership or trust, it is considered to be a corporation.

A joint undertaking merely to share expenses is not a partnership. Mere co-ownership of property that is maintained and leased or rented is not a partnership. However, if the co-owners provide services to the tenants, a partnership exists.

General Partner.—A general partner is a partner who is personally liable for partnership debts.

Limited Partner.—A limited partner is a partner whose personal liability for partnership debts is limited to the amount of money or other property that the partner contributed or is required to contribute to the partnership.

Limited Partnership.—A limited partnership is a partnership composed of at least one general partner and one or more limited partners.

Nonrecourse Loans.—Nonrecourse loans are those liabilities of the partnership for which none of the partners has any personal liability.

Section 702(a) Items

Under section 702(a), partners are required to take into account separately their distributive shares of the following items (whether or not they are actually distributed):

1. Gains and losses from sales or exchanges of capital assets;

2. Gains and losses from sales or exchanges of property described in section 1231;

3. Charitable contributions (as defined in section 170(c));

4. Dividends (passed through to corporate partners) that qualify for the dividends-received deduction;

5. Taxes described in section 901 paid or accrued to foreign countries and to possessions of the United States;

6. Other items of income, gain, loss, deduction, or credit, to the extent provided by regulations. Examples of such items include nonbusiness expenses described in section 212, intangible drilling and development costs (section 263(c)), and soil and water conservation expenditures (section 175). (See the instructions for Schedules K and K-1 later in these instructions for a more detailed list); and

7. Taxable income or loss (ordinary income or loss) exclusive of items 1 through 6 above.

Elections

Generally, the partnership decides how to figure taxable income from its operations. For example, it chooses the accounting method and depreciation methods it will use. The partnership also makes the elections under the following sections:

- The election under section 1033 to not recognize certain reinvested gain when property is compulsorily or involuntarily converted into money or into property that is not similar or related in use or service.

- The election under section 614 with respect to oil and gas wells or geothermal deposits to treat more than one operating mineral interest in a single tract or parcel of land as separate properties. The partnership must make the section 614 election before the partners compute their individual depletion allowances under section 613A(c)(7)(D). See Revenue Ruling 84-142, 1984-2 C.B. 117. See the instructions for Schedule K-1, line 21, item c, for the information on oil and gas depletion that must be supplied to the partners by the partnership.
- The election under section 754 under which a partnership may elect to adjust: **(a)** the basis of its remaining assets when assets distributed to a partner have increased or decreased in value; **(b)** a new partner's share of the basis of partnership assets to reflect the purchase price paid by a new partner for the new partner's interest; or **(c)** an estate's or other beneficiary's share of the basis of partnership assets to reflect a change in the basis of a partnership interest on the death of a partner. See Regulations section 1.754-1(b) and the instructions for Question R for more information.
- The election under section 179 to expense the cost of certain tangible property. The partnership passes this amount through to the partners. See Form 4562 for more information.

Information about other elections may be found under the applicable sections of Chapter 1 of the Code and the Income Tax Regulations.

Elections under the following Code sections are made by each partner separately on the partner's tax return:

- Section 108 (income from discharge of indebtedness);
- Section 617 (deduction and recapture of certain mining exploration expenditures paid or incurred); and
- Section 901 (foreign tax credit).

In addition, each partner may make an election under section 59(e) to deduct ratably, over the period specified in that section, certain qualified expenditures such as intangible drilling costs, mining exploration expenses, or research and experimental expenditures. See the instructions for Schedules K and K-1, lines 18a and 18b, for more information.

Distribution of Unrealized Receivables and Inventory Items

If a partnership distributes unrealized receivables or substantially appreciated inventory items in exchange for all or part of a partner's interest in other partnership property (including money), treat the transaction as a sale or exchange between the partner and the partnership. Treat the partnership gain (loss) as ordinary income (loss). Allocate the income (loss) only to partners (other than the distributee partner) who will take this amount into account separately under section 702(a)(7).

If a partnership gives other property (including money) for all or part of that partner's interest in the partnership's unrealized receivables or substantially appreciated inventory items, treat the transaction as a sale or exchange of the property. See section 751 and the related regulations for definitions of unrealized receivables and substantially appreciated inventory items.

Generally, if a partner sells or exchanges a partnership interest where unrealized receivables or substantially appreciated inventory items are involved, the transferor partner must notify the partnership, in writing, within 30 days of the exchange. See **Form 8308,** Report of a Sale or Exchange of Certain Partnership Interests, for the types of unrealized receivables involved.

Note: *The transferor in a section 751(a) exchange does not have to notify the partnership of the exchange if, under section 6045, Form 1099-B is required to be filed with respect to the sale or exchange. See Form 8308 for more information.*

See Revenue Ruling 84-102, 1984-2 C.B. 119, for information on the tax consequences that result when a new partner joins a partnership that has liabilities and unrealized receivables. Also, see section 6050K and Pub. 541 for more information.

See section 751(f) for special rules for section 751 exchanges in the case of tiered partnerships.

Partner's Dealings With Partnership

If a partner engages in a transaction with his or her partnership, other than in his or her capacity as a partner, the partner is treated as not being a member of the partnership for that transaction. Special rules apply to sales or exchanges of property between partnerships and certain persons, as explained in Pub. 541.

Contributions to the Partnership

Generally, no gain (loss) is recognized to the partnership or any of the partners when property is contributed to the partnership in exchange for an interest in the partnership. This rule does not apply to any gain realized on a transfer of property to a partnership that would be treated as an investment company (within the meaning of section 351) if the partnership were incorporated. If, as a result of a transfer of property to a partnership, there is a direct or indirect transfer of money or other property to the transferring partner, gain may have to be recognized on the exchange.

The basis to the partnership of property contributed by a partner is the adjusted basis in the hands of the partner at the time it was contributed, plus any gain recognized (under section 721(b)) by the partner at that time. See section 723 for more information.

Notes: *See section 704(c) for the rules regarding partnership allocations with respect to contributed property.*

If a partner contributed unrealized receivables, inventory items, or capital loss property to the partnership, see section 724.

Passive Activity Limitations

In general, section 469 limits the amount of losses, deductions, and credits that partners may claim from "passive activities." The passive activity limitations do not apply to the partnership. Instead, they apply to each partner's share of any income or loss and credit attributable to a passive activity. Because the treatment of each partner's share of partnership income or loss and credit depends upon the nature of the activity that generated it, the partnership must report income or loss and credits separately for each activity.

The instructions below (pages 5-9) and the instructions for Schedules K and K-1 (pages 15-23) explain the applicable passive activity limitation rules and specify the type of information the partnership must provide to its partners for each activity. If the partnership has more than one activity, it must report information for each activity on an attachment to Schedules K and K-1.

Generally, passive activities include: **(a)** activities that involve the conduct of a trade or business if the partner does not materially participate in the activity; and **(b)** all rental activities (see definition on page 6), regardless of the partner's participation. The level of each partner's participation in an activity must be determined by the partner.

The passive activity rules provide that losses and credits from passive activities can generally be applied only against income and tax from passive activities. Thus, passive losses and credits cannot be applied against income from salaries, wages, professional fees, or a business in which the taxpayer materially participates; against "portfolio income" (see definition on page 7); or against the tax related to any of these types of income.

Special provisions apply to certain activities. First, the passive activity limitations must be applied separately with respect to a net loss from passive activities held through a publicly traded partnership.

Second, special transitional rules apply to losses with respect to partnership interests acquired and activities commenced before October 23, 1986, and with respect to losses incurred by investors in qualified low-income housing projects. Third, special rules require that net income from certain activities that would otherwise be treated as passive income must be recharacterized as nonpassive income for purposes of the passive activity limitations.

To allow each partner to correctly apply the passive activity limitations, the partnership must report income or loss and credits separately for each of the following types of activities and income: trade or business activities, rental real estate activities, rental activities other than rental real estate, and portfolio income. For definitions of each type of activity or income, see **Types of Activities and Income,** on page 6. For details

regarding the special reporting requirements for passive activities, see **Passive Activity Reporting Requirements** on page 8.

Identifying Activities

Generally, each undertaking the partnership owns is a separate activity.

An undertaking includes all the business or rental operations owned by the partnership at the same location. Operations not actually conducted at a fixed location are treated as conducted at the location with which they are most closely associated under all the facts and circumstances. For example, if a business sends employees from a central office to perform services at customers' homes, the operations are treated as conducted at the central office. If the partnership conducts all its business or rental operations at the same location directly or through one entity, the partnership has only one undertaking and one activity.

Rental undertakings.—If the partnership owns an undertaking that conducts both rental and nonrental operations, it must treat the two types of operations as two separate undertakings unless: (1) the rental operations, if treated as a separate activity, would not be a rental activity (see **Rental Activities** below; or (2) one type of operation produces more than 80% of the combined undertaking's gross income.

Combining partnership undertakings into activities.—Once partnership undertakings are identified, treat each undertaking as a separate activity unless one of the following rules requires or permits the partnership to combine undertakings into a larger activity:

1. Trade or business undertakings.—Generally, the partnership must combine trade or business undertakings into a larger activity if the undertakings are similar and commonly controlled. For details, see Temporary Regulations section 1.469-4T(f) and (j). Trade or business undertakings include all nonrental undertakings except professional service undertakings (described in the next paragraph) and oil or gas wells treated as separate undertakings under Temporary Regulations section 1.469-4T(e). Trade or business activities that constitute an integrated business may have to be combined into an even larger activity under Temporary Regulations section 1.469-4T(g).

2. Professional service undertakings.—Professional service undertakings principally provide services in the fields of health, law, engineering, architecture, accounting, actuarial science, the performing arts, or consulting. Generally, the partnership must combine its interests in professional service undertakings into a single activity if the undertakings provide services in the same field or earn more than 20% of their gross income from serving the same customers, or if the undertakings are controlled by the same interests. For details, see Temporary Regulations section 1.469-4T(h).

The partnership may elect to treat combined nonrental undertakings acquired in 1990 as separate activities for purposes other than determining participation in activities. To make this election, the partnership must attach to Form 1065 a statement that: **(a)** gives the partnership's name, address, and employer identification number; **(b)** declares that the election is being made under Temporary Regulations section 1.469-4T(o); **(c)** identifies the undertaking that is treated as a separate activity; and **(d)** identifies the rest of the activity from which the undertaking was separated.

If the partnership wants to treat as separate activities any undertakings it acquired in 1990 that these rules would otherwise combine into a larger activity, it must attach this statement to its 1990 return or it will not be able to treat the undertakings as separate activities for 1990 or any later year. For details, see Temporary Regulations section 1.469-4T(o).

If undertakings the partnership owned in 1989 were combined into a larger activity on its 1989 return, those undertakings cannot be divided into separate activities in 1990 or any later year.

3. Rental real estate undertakings.—A rental real estate undertaking is a rental undertaking in which at least 85% of the unadjusted basis of the property made available for use by customers is real property. The partnership may treat a single rental real estate undertaking as a single activity, or it may treat any combination of rental real estate undertakings as a single activity. Under certain circumstances, the partnership may also elect to divide a single rental real estate undertaking into separate undertakings. For details, see Temporary Regulations section 1.469-4T(k)(2)(iii).

Generally, the partnership must attach a statement to Form 1065 if it combines separate rental real estate undertakings or portions of undertakings into the same activity or divides a single rental real estate undertaking into separate undertakings. If the partnership wants to divide a single rental real estate undertaking it acquired in 1990 into separate undertakings, it must attach this statement to its 1990 return or it will not be able to treat the undertaking as separate undertakings for 1990 or any later year.

If the partnership divided a single rental real estate undertaking it owned in 1989 into separate undertakings on its 1989 return, it must treat the undertakings as separate undertakings in 1990 and any later year.

Furthermore, if the partnership combined rental real estate undertakings it owned in 1989 into a larger activity on its 1989 return, the larger activity cannot be divided into separate activities in 1990 or any later year.

Types of Activities and Income

1. Trade or business activities.—A trade or business activity is an activity that involves the conduct of a trade or business within the meaning of section 162.

If the partner does not materially participate in the activity, a trade or business activity held through a partnership is generally a passive activity of the partner. However, the passive activity limitations do not apply to any partner holding a working interest in an oil or gas well if the partner holds the interest through an entity that does not limit the partner's liability. See Temporary Regulations section 1.469-1T(e)(4) for more information.

The determination whether a partner materially participated in an activity must be made by each partner. As a result, while the partnership's overall trade or business income (loss) is reported on page 1 of Form 1065, the specific income and deductions from each separate trade or business activity must be reported on attachments to Form 1065. Similarly, while each partner's allocable share of the partnership's overall trade or business income (loss) is reported on line 1 of Schedule K-1, each partner's allocable share of the income and deductions from each trade or business activity must be reported on attachments to each Schedule K-1. See **Passive Activity Reporting Requirements,** on page 8, for more information.

2. Rental activities.—In reporting the partnership's income or losses and credits from rental activities, the partnership must separately report: **(a)** rental real estate activities, and **(b)** rental activities other than rental real estate activities.

Definition of rental activities.—Generally, except as noted below, if the gross income from an activity consists of amounts paid principally for the use of real or personal tangible property held by the partnership, the activity is a rental activity. There are several exceptions to this general rule. Under these exceptions, an activity involving the use of real or personal tangible property is not a rental activity if: **(a)** the average period of customer use (see definition on page 7) for such property is 7 days or less; **(b)** the average period of customer use for such property is 30 days or less and significant personal services (see definition on page 7) are provided by or on behalf of the partnership; **(c)** extraordinary personal services (see definition on page 7) are provided by or on behalf of the partnership; **(d)** the rental of such property is treated as incidental to a nonrental activity of the partnership under Temporary Regulations section 1.469-1T(e)(3)(vi); or **(e)** the partnership customarily makes the property available during defined business hours for nonexclusive use by various customers.

In addition, if a partnership owns an interest in a partnership or joint venture that conducts a nonrental activity, and the partnership provides property for use in that nonrental activity in the partnership's capacity as an owner of an interest in the partnership or joint venture, the provision of the property is not a rental activity. Consequently, the partnership's distributive share of income from the activity is not income from a rental activity. A guaranteed payment described in section 707(c) is not income from a

rental activity under any circumstances. Whether the partnership provides property used in an activity of another partnership or of a joint venture in the partnership's capacity as an owner of an interest in the partnership or joint venture is determined on the basis of all of the facts and circumstances.

Average period of customer use.—The average period of customer use for a class of property is computed by dividing the total number of days in all rental periods by the number of rentals during the tax year. If the activity involves renting more than one class of property, multiply the average period of customer use of each class by the ratio of the gross rental income from that class to the activity's total gross rental income. The activity's average period of customer use equals the sum of these class-by-class average periods weighted by gross income. See Temporary Regulations section 1.469-1T(e)(3)(iii).

Significant personal services.—Personal services include only services performed by individuals. In determining whether personal services are significant personal services, all the relevant facts and circumstances are taken into consideration. Relevant facts and circumstances include the frequency with which the services are provided, the type and amount of labor required to perform the services, and the value of the services in relation to the amount charged for use of the property. The following services are excluded from consideration in determining whether personal services are significant: **(a)** services necessary to permit the lawful use of the rental property; **(b)** services performed in connection with improvements or repairs to the rental property that extend the useful life of the property substantially beyond the average rental period; **(c)** services provided in connection with the use of any improved real property that are similar to those commonly provided in connection with long-term rentals of high-grade commercial or residential property (e.g., cleaning and maintenance of common areas, routine repairs, trash collection, elevator service, and security at entrances).

Extraordinary personal services.—Services provided in connection with making rental property available for customer use are extraordinary personal services only if the services are performed by individuals and the customers' use of the rental property is incidental to their receipt of the services. For example, a patient's use of a hospital room generally is incidental to the care received from the hospital's medical staff. Similarly, a student's use of a dormitory room in a boarding school is incidental to the personal services provided by the school's teaching staff.

Rental activity incidental to a nonrental activity.—An activity is not a rental activity if the rental of the property is incidental to a nonrental activity, such as the activity of holding property for investment, a trade or business activity, or the activity of dealing in property.

Rental of property is incidental to an activity of holding property for investment if the main purpose for holding the property is to realize a gain from the appreciation of the property and the gross rental income from such property for the tax year is less than 2% of the smaller of the unadjusted basis of the property or the fair market value of the property.

Rental of property is incidental to a trade or business activity if: **(a)** the partnership owns an interest in the trade or business at all times during the year; **(b)** the rental property was mainly used in the trade or business activity during the tax year or during at least 2 of the 5 preceding tax years; and **(c)** the gross rental income from the property for the tax year is less than 2% of the smaller of the unadjusted basis of the property or the fair market value of the property.

The sale or exchange of property that is both rented and sold or exchanged during the tax year (where the gain or loss is recognized) is treated as incidental to the activity of dealing in property if, at the time of the sale or exchange, the property was held primarily for sale to customers in the ordinary course of the partnership's trade or business.

See Temporary Regulations section 1.469-1T(e)(3) for more information on the definition of rental activities for purposes of the passive activity limitations.

2(a). Rental real estate activities.—Partners who actively participate in a rental real estate activity may be able to deduct part or all of their rental real estate losses (and the deduction equivalent of rental real estate credits) against income (or tax) from nonpassive activities. The combined amount of rental real estate losses and the deduction equivalent of rental real estate credits from all sources (including rental real estate activities not held through the partnership) that may be claimed is limited to $25,000. This $25,000 amount is reduced for high income partners.

Special transitional rules apply to investors in qualified low-income housing projects. See section 502 of the 1986 Act and **Pub. 925,** Passive Activity and At-Risk Rules, for more information.

Rental real estate activity income (loss) is reported on **Form 8825,** Rental Real Estate Income and Expenses of a Partnership or an S Corporation, and line 2 of Schedules K and K-1 rather than on page 1 of Form 1065.

Credits related to rental real estate activities are reported on lines 13c and 13d of Schedules K and K-1. Low-income housing credits are reported on line 13b of Schedules K and K-1.

2(b). Rental activities other than rental real estate activities.— Income (loss) from rental activities other than rental real estate is reported on line 3 of Schedules K and K-1. Credits related to rental activities other than rental real estate are reported on line 13e of Schedules K and K-1.

3. Portfolio income.—Generally, portfolio income includes all gross income, other than income derived in the ordinary course of a trade or business, that is attributable to: interest; dividends; royalties; income from a real estate investment trust, a regulated investment company, a real estate mortgage investment conduit, a common trust fund, a controlled foreign corporation, a qualified electing fund, or a cooperative; income from the disposition of property that produces income of a type defined as portfolio income; and income from the disposition of property held for investment.

Solely for purposes of the preceding paragraph, gross income derived in the ordinary course of a trade or business includes (and portfolio income, therefore, does not include) only the following types of income: **(a)** interest income on loans and investments made in the ordinary course of a trade or business of lending money; **(b)** interest on accounts receivable arising from the performance of services or the sale of property in the ordinary course of a trade or business of performing such services or selling such property, but only if credit is customarily offered to customers of the business; **(c)** income from investments made in the ordinary course of a trade or business of furnishing insurance or annuity contracts or reinsuring risks underwritten by insurance companies; **(d)** income or gain derived in the ordinary course of an activity of trading or dealing in any property if such activity constitutes a trade or business (unless the dealer held the property for investment at any time before such income or gain is recognized); **(e)** royalties derived by the taxpayer in the ordinary course of a trade or business of licensing intangible property; **(f)** amounts included in the gross income of a patron of a cooperative by reason of any payment or allocation to the patron based on patronage occurring with respect to a trade or business of the patron; and **(g)** other income identified by the Commissioner as income derived by the taxpayer in the ordinary course of a trade or business.

See Temporary Regulations section 1.469-2T(c)(3) for more information on portfolio income.

Portfolio income is reported on line 4 of Schedules K and K-1, rather than on page 1 of Form 1065.

Deductions related to portfolio income are reported on line 10 of Schedules K and K-1.

Recharacterization of Passive Income

Under the provisions of Temporary Regulations section 1.469-2T(f), net passive income from certain passive activities must be treated as nonpassive income. Income from the following sources is subject to recharacterization: **(1)** significant participation passive activities, **(2)** rental of substantially nondepreciable property, **(3)** passive equity-financed lending activities, **(4)** rental of property incidental to a development activity, **(5)** rental of property to a nonpassive activity, and **(6)**

acquisition of an interest in a passthrough entity that licenses intangible property.

Any net passive income from the rental of substantially nondepreciable property, from an equity-financed lending activity, or from an activity related to an interest in a passthrough entity that licenses intangible property that is recharacterized as nonpassive income is treated by partners as investment income for purposes of computing investment interest expense limitations. "Net passive income" means the excess of passive activity gross income from the activity over passive activity deductions (current year deductions and prior year unallowed losses) from the activity.

1. Significant participation passive activities.—A significant participation passive activity is any trade or business activity in which the partner both participates for more than 100 hours during the tax year and does not materially participate. Because each partner must determine the partner's level of participation, the partnership will not be able to identify significant participation passive activities.

2. Certain nondepreciable rental property activities.—Net passive income from a rental activity is nonpassive income if less than 30% of the unadjusted basis of the property used or held for use by customers in the activity is subject to depreciation under section 167.

3. Passive equity-financed lending activities.—If the partnership has net income from a passive equity-financed lending activity, the lesser of the net passive income or the equity-financed interest income from the activity is nonpassive income.

Note: *The amount of income from the activities in items 1 through 3 above, that any partner will be required to recharacterize as nonpassive income may be limited under Temporary Regulations section 1.469-2T(f)(8). Since the partnership will not have information regarding all of a partner's activities, it must identify all partnership activities meeting the definitions in items 2 and 3 as activities that may be subject to recharacterization.*

4. Rental of property incidental to a development activity.—Net rental activity income is nonpassive income for a partner if all of the following apply: **(a)** the partnership recognizes gain from the sale, exchange, or other disposition of the rental property during the tax year; **(b)** the use of the item of property in the rental activity started less than 12 months before the date of disposition (the use of an item of rental property begins when substantially all of the property is first held out for rent and is in a state of readiness for rental); and **(c)** the partner materially participated or significantly participated for any tax year in an activity that involved the performance of services for the purpose of enhancing the value of the property (or any other item of property, if the basis of the property disposed of is determined in whole or in part by reference to the basis of that item of property). "Net rental activity income" means the excess of passive activity gross income from renting or disposing of property over passive activity deductions (current year deductions and prior year unallowed losses) that are reasonably allocable to the rented property.

Because the partnership cannot determine a partner's level of participation, the partnership must identify net income from property described in items (a) and (b) of paragraph 4 as income that may be subject to recharacterization.

5. Rental of property to a nonpassive activity.—If a taxpayer rents property to a trade or business activity in which the taxpayer materially participates, the taxpayer's net rental activity income from the property is nonpassive income. "Net rental activity income" means the excess of passive activity gross income from renting or disposing of property over passive activity deductions (current year deductions and prior year unallowed losses) that are reasonably allocable to the rented property.

6. Acquisition of an interest in a passthrough entity that licenses intangible property.—Generally, net royalty income from intangible property is nonpassive income if the taxpayer acquired an interest in the passthrough entity after the passthrough entity created the intangible property or performed substantial services, or incurred substantial costs in developing or marketing the intangible property. "Net royalty income" means the excess of passive activity gross income from licensing or transferring any right in intangible property over passive activity deductions (current year deductions and prior year unallowed losses) that are reasonably allocable to the intangible property.

See Temporary Regulations section 1.469-2T(f)(7)(iii) for exceptions to this rule.

Passive Activity Reporting Requirements

To allow partners to correctly apply the passive activity loss and credit rules, any partnership that carries on more than one activity must:

1. Provide an attachment for each activity conducted through the partnership that identifies the type of activity conducted (trade or business, rental real estate, rental activity other than rental real estate, or investment).

2. On the attachment for each activity, provide a schedule, using the same line numbers as shown on Schedule K-1, detailing the net income (loss), credits, and all items required to be separately stated under section 702(a) from each trade or business activity, from each rental real estate activity, from each rental activity other than a rental real estate activity, and from investments. With respect to each separately identified activity, identify any activity that both is a pre-enactment activity conducted through the partnership and relates to a pre-enactment interest of the partner.

3. Identify the net income (loss) and credits from each oil or gas well drilled or operated pursuant to a working interest that any partner (other than a partner whose only interest in the partnership during the year is as a limited partner) holds through the partnership. Further, if any partner had an interest as a general partner in the partnership during less than the entire year, the partnership must identify both the disqualified deductions from each well that the partner must treat as passive activity deductions, and the ratable portion of the gross income from each well that the partner must treat as passive activity gross income.

4. Identify the net income (loss) and the partner's share of partnership interest expense from each activity of renting a dwelling unit that the partner also uses for personal purposes during the year for more than the greater of 14 days or 10% of the number of days that the residence is rented at fair rental value.

5. Identify the net income (loss) and the partner's share of partnership interest expense from each activity of trading personal property conducted through the partnership.

6. With respect to any gain (loss) from the disposition of an interest in an activity or of an interest in property used in an activity (including dispositions before 1987 from which gain is being recognized after 1986):

(a) identify the activity in which the property was used at the time of disposition;

(b) if the property was used in more than one activity during the 12 months preceding the disposition, identify the activities in which the property was used and the adjusted basis allocated to each activity; and,

(c) with respect to gains only, if the property was substantially appreciated at the time of the disposition and the applicable holding period specified in Temporary Regulations section 1.469-2T(c)(2)(iii)(A) was not satisfied, identify the amount of the nonpassive gain and indicate whether or not the gain is investment income under the provisions of Temporary Regulations section 1.469-2T(c)(2)(iii)(E).

7. Specify the amount of gross portfolio income, the interest expense properly allocable to portfolio income, and expenses other than interest expense that are clearly and directly allocable to portfolio income.

8. Identify separately any of the following types of payments to partners: payments to a partner for services other than in the partner's capacity as a partner (under section 707(a)); guaranteed payments to a partner for services (under section 707(c)); guaranteed payments for use of capital; if section 736(a)(2) payments are made for unrealized receivables or for goodwill, the amount of the payments and the activities to which the payments are attributable; if section 736(b) payments are made, the amount of the payments and the activities to which the payments are attributable.

9. Identify the ratable portion of any section 481 adjustment (whether a net positive or a net negative adjustment) allocable to each partnership activity.

10. Identify the amount of gross income from each oil or gas property of the partnership.

11. Identify any gross income from sources that are specifically excluded from passive activity gross income, including: income from intangible property if the partner is an individual and the partner's personal efforts significantly contributed to the creation of the property; income from a qualified low-income housing project (as defined in section 502 of the 1986 Act) conducted through the partnership; income from state, local, or foreign income tax refunds; and income from a covenant not to compete (in the case of a partner who is an individual and who contributed the covenant to the partnership).

12. Identify any deductions that are not passive activity deductions.

13. If the partnership makes a full or partial disposition of its interest in another entity, identify the gain (loss) allocable to each activity conducted through the entity, and the gain allocable to a passive activity that would have been recharacterized as nonpassive gain had the partnership disposed of its interest in property used in the activity (because the property was substantially appreciated at the time of the disposition, and the gain represented more than 10% of the partner's total gain from the disposition).

14. Identify the following items with respect to activities that may be subject to the recharacterization rules under Temporary Regulations section 1.469-2T(f):

(a) net income from an activity of renting substantially nondepreciable property;

(b) the lesser of equity-financed interest income or net passive income from an equity-financed lending activity;

(c) net rental activity income from property that was developed (by the partner or the partnership), rented, and sold within 12 months after the rental of the property commenced;

(d) net rental activity income from the rental of property by the partnership to a trade or business activity in which the partner had an interest (either directly or indirectly); and

(e) net royalty income from intangible property if the partner acquired the partner's interest in the partnership after the partnership created the intangible property or performed substantial services, or incurred substantial costs in developing or marketing the intangible property.

15. With respect to credits, identify separately the credits from the partnership that are associated with each activity conducted by or through the partnership.

16. With respect to credits being taken on a qualified progress expenditure basis, identify the activity in which the property will be placed in service upon completion of the expenditures.

Specific Instructions

These instructions follow the line numbers on the first page of Form 1065 and on the schedules that accompany it. Specific instructions for most of the lines are provided on the following pages. Lines that are not discussed in the instructions are self-explanatory.

Fill in all applicable lines and schedules. Enter any items specially allocated to the partners on the appropriate line of the applicable partner's Schedule K-1. Enter the total amount on the appropriate line of Schedule K. Do not enter separately stated amounts on the numbered lines on Form 1065, page 1, or on Schedule A or D.

Be sure to file all three pages of Form 1065 as well as a Schedule K-1 for each partner.

File only one Form 1065 for each partnership. Mark "duplicate copy" on any copy you give to a partner.

If a syndicate, pool, joint venture, or similar group files Form 1065, a copy of the agreement and all amendments must be attached to the return, unless a copy has already been filed.

Form 1065

Name, Address, and Employer Identification Number

Use the label on the package that was mailed to the partnership. If the partnership's name, address, or employer identification number is wrong on the label, mark through it and write the correct information on the label. If the partnership does not have a package with a label, print or type the partnership's legal or trade name and address on the appropriate lines.

Address.—Include the suite, room, or other unit number after the street address. If a pre-addressed label is used, please include this information on the label.

If the Post Office does not deliver mail to the street address and the partnership has a P.O. box, show the P.O. box number instead of the street address.

If the partnership's address is outside of the United States or its possessions or territories, enter the information on the line for "City or town, state, and ZIP code" in the following order: city, province or state, foreign postal code, and the name of the foreign country. Do **not** abbreviate the country name.

Employer identification number.—Show the correct employer identification number in Item D on page 1 of Form 1065. If the partnership does not have an employer identification number, it must apply for one on **Form SS-4,** Application for Employer Identification Number. Form SS-4 can be obtained at any IRS or Social Security Administration office. See Pub. 583 for more information.

Item A

Principal Business Activity

Enter the applicable activity name and code number from the list on page 24.

For example, if, as its principal business activity, the partnership (1) purchases raw materials, (2) subcontracts out for labor to make a finished product from the raw materials, and (3) retains title to the goods, the partnership is considered to be a manufacturer and must enter "Manufacturer" in Item A and enter one of the codes (2000 through 3970) under "Manufacturing" on page 24 of the Instructions in Item C.

Item F

Total Assets

See the instructions below for Question N before completing Item F.

If you are required to complete this item, enter the total assets, as determined by the accounting method regularly used in maintaining the partnership's books and records, as of the end of the partnership's tax year. If there are no assets at the end of the tax year, enter the total assets as of the beginning of the tax year.

Item I

Number of Partners

Enter the total number of persons who were partners at **any time** during the tax year.

Question M

Consolidated Audit Procedures

Generally, the tax treatment of partnership items is determined at the partnership level in a consolidated audit proceeding, rather than in separate proceedings with individual partners.

Answer "Yes" to Question M if any of the following apply:

- The partnership had more than 10 partners at any one time during the tax year (for purposes of this question, a husband and wife—and their estates—count as one person); or
- Any partner was a nonresident alien or was other than a natural person or estate; or
- Any partner's share of any partnership item was different from his or her share of any other partnership item; or
- The partnership is a "small partnership" that has elected to be subject to the rules for consolidated audit proceedings.

"Small partnerships" as defined in section 6231(a)(1)(B) are not subject to the rules for consolidated audit proceedings, but may make an irrevocable election to be covered by them.

For more information on the rules for consolidated audit proceedings, see **Pub. 556,** Examination of Returns, Appeal Rights, and Claims for Refund, and section 6231.

Question N

Answer "Yes" to Question N if **ALL** of the requirements 1 through 7 on page 10 are

met. If Question N is answered "Yes," the partnership is not required to complete Schedules L and M, Item F on page 1 of Form 1065, or Item K on Schedule K-1.

1. The partnership's principal income producing activity is from one or more of the following:

a. Co-ownership of investment property.

b. Family-owned wholesale or retail store partnership (activity codes 5001–5996)

c. Family farm partnership.

d. Wholesale or retail (activity codes 5001–5996), or service (activity codes 7012–8999) partnership with **both** gross receipts and assets of less than $250,000.

See page 24 for the list of activity codes.

2. The partnership is a domestic partnership composed of 10 or fewer partners (generally, 10 or fewer Schedules K-1 are attached to this return, except that a husband and wife and their estates are treated as one partner for this purpose) each of whom is a natural person (other than a nonresident alien) or an estate.

3. The partnership does not have any trusts or corporations as partners.

4. The partnership is not a partner in any other partnership.

5. Each partner's interest in the capital is the same as his or her interest in the profits.

6. All of the income, deductions, and credits are allocated to each partner in proportion to that partner's pro rata interest.

7. Schedules K-1 are filed with the return and furnished to the partners on or before the due date of the partnership return including extensions.

Question O

Foreign Partners

Answer "Yes" to Question O if the partnership had any foreign partners (for purposes of section 1446) at any time during the tax year. Otherwise, answer "No."

If the partnership had gross income effectively connected with a trade or business in the U.S. and foreign partners, it may be required to withhold tax under section 1446 on income allocable to foreign partners (without regard to distributions) and file Forms 8804, 8805, and 8813. See Revenue Procedure 89-31, 1989-1 C.B. 895, for more information.

Question R

Section 754 Election

Under section 754, a partnership may elect to adjust the basis of partnership property when property is distributed or when a partnership interest is transferred. If the election is made with respect to a transfer of a partnership interest (section 743(b)) and the assets of the partnership constitute a trade or business for purposes of section 1060(c), then the value of any goodwill transferred must be determined in the manner provided in Temporary Regulations section 1.1060-1T. Once an election is made under section 754, it applies both to all distributions and to all transfers made during the tax year and in all subsequent tax years unless the election is revoked (see Regulations section 1.754-1(c)).

This election must be made in a statement that is filed with the partnership's timely filed return (including any extension) for the tax year during which the distribution or transfer occurs. The statement must include: (1) the name and address of the partnership; (2) a declaration that the partnership elects under section 754 to apply the provisions of section 734(b) and section 743(b); and (3) the signature of the general partner authorized to sign the partnership return.

See section 754 and the related regulations for more information.

Note: *If there is a distribution of property consisting of an interest in another partnership, see section 734(b).*

Question S

Foreign Accounts

Answer "Yes" to Question S if either **a** OR **b** below applies to the partnership:

a. At any time during the year, the partnership had an interest in or signature or other authority over a bank account, securities account, or other financial account in a foreign country.

Exception: Answer "No" if either of the following applies to the partnership:

- The combined value of the accounts was $10,000 or less during the whole year.
- The accounts were with a U.S. military banking facility operated by a U.S. financial institution.

b. The partnership owns more than 50% of the stock in any corporation that would answer the question "Yes," based on item **a** above.

Get form **TD F 90-22.1,** Report of Foreign Bank and Financial Accounts, to see if the partnership is considered to have an interest in or signature or other authority over a bank account, securities account, or other financial account in a foreign country.

If you answered "Yes" to Question S, file form TD F 90-22.1 by June 30, 1991. File it with the Department of the Treasury at the address shown on the form. Form TD F 90-22.1 is not a tax return. Do not file it with Form 1065.

Attach a statement that gives the names of the country or countries to which Question S applies if you need additional space to write in their names.

Income

Lines 1a through 8

Caution: *Report only trade or business activity income on lines 1a through 8.* ***Do not report rental activity income or portfolio income on these lines.*** *(See the instructions on* ***Passive Activity Limitations*** *beginning on page 5 for definitions of rental income and portfolio income.) Rental activity income and portfolio income are reported on Schedules K and K-1 (rental real estate activities are also reported on Form 8825).*

Do not include any income that is tax exempt on lines 1a through 8.

A partnership that receives any tax-exempt income other than interest, or holds any property or engages in any activity that produces tax-exempt income, must attach to its return an itemized statement showing the amount of each type of tax-exempt income, and the amount of expense allocated to each type.

Tax-exempt interest income, including exempt-interest dividends received as a shareholder in a mutual fund or other regulated investment company, is reported to the partners on line 21 of Schedule K-1.

See the instructions for **Deductions** on page 11 for information on how to treat expenses related to tax-exempt income.

If the partnership has been involved in bankruptcy, insolvency, or similar proceedings, see section 108, **Form 982,** Reduction of Tax Attributes Due to Discharge of Indebtedness, and **Pub. 908,** Bankruptcy and Other Debt Cancellation, for more information.

Line 1a

Gross Receipts or Sales

Enter gross receipts or sales from all trade or business operations. Do not include rental activity income or portfolio income. Also, do not include income you are required to report on lines 4 through 7. For example, do not include gross receipts from farming on this line. Instead, show net profits (losses) from farming on line 5.

Special rules apply to long-term contracts. See section 460 for more information.

Generally, the installment method cannot be used for dealer dispositions of property. A "dealer disposition" means any disposition of personal property by a person who regularly sells or otherwise disposes of personal property of the same type on the installment plan or any disposition of real property held for sale to customers in the ordinary course of the taxpayer's trade or business. The disposition of property used or produced in a farming business is not included as a dealer disposition. See section 453(l) for details and exceptions.

For dealer dispositions of property before March 1, 1986, dispositions of property used or produced in the trade or business of farming, and certain dispositions of timeshares and residential lots reported under the installment method, enter on line 1a the gross profit on collections from installment sales and carry the same amount to line 3. Attach a schedule showing the following for the current year and the three preceding years: **(a)** gross sales, **(b)** cost of goods sold, **(c)** gross profits, **(d)** percentage of gross profits to gross sales, **(e)** amount collected, and **(f)** gross profit on amount collected.

Line 2

Cost of Goods Sold

See the instructions for Schedule A.

Line 4

Ordinary Income (Loss) From Other Partnerships and Fiduciaries

Enter the amount shown on Schedule K-1 (Form 1065) or Schedule K-1 (Form 1041).

Do **not** include portfolio income or rental activity income (loss) from other partnerships and fiduciaries on this line. instead, report these amounts on the applicable lines of Schedules K and K-1, or on line 20a of Form 8825 if the amount is from a rental real estate activity.

Treat shares of other items separately reported on Schedule K-1 issued by the other entity as if the items were realized or incurred by this partnership.

Note: *Partnerships must consider the rules of section 469 (including the rules regarding publicly traded partnerships) when reporting items from other partnerships or fiduciaries in which they are partners or beneficiaries. For example, portfolio income from other partnerships or fiduciaries must be reported as a separately stated item to partners in this partnership and should not be reported on page 1 of Form 1065.*

If there is a loss from another partnership, the amount of the loss that may be claimed is subject to the limitations of sections 465 and 704(d), as appropriate.

If the tax year of your partnership does not coincide with the tax year of the other partnership or fiduciary, include the ordinary income (loss) from the other entity in the tax year in which the other entity's tax year ends.

Note: *Be sure to show the partnership's or fiduciary's name, address, and employer identification number on a separate statement attached to this return. If the amount entered is from more than one source, identify the amount from each source.*

Line 5

Net Farm Profit (Loss)

Enter the partnership's net profit (loss) from **Schedule F (Form 1040),** Farm Income and Expenses. Attach Schedule F (Form 1040) to Form 1065. Do **not** include on this line any farm profit (loss) from other partnerships. Report those amounts on line 4. In computing the partnership's net farm profit (loss) do not include any section 179 expense deduction, since this amount must be separately stated.

Also report the partnership's fishing income on this line.

A special rule applies to farm partnerships that use the cash method of accounting, and whose prepaid expenses for feed, seed, fertilizer, other farm supplies, and the cost of poultry are more than 50% of other deductible farming expenses. Generally, any such excess may be deducted only in the year the items are actually used or consumed. See section 464(f).

Farm syndicates (section 464(c)) are required to use the accrual method of accounting. See section 448.

If a corporation is a partner of a partnership engaged in farming, see section 447.

For more information, see **Pub. 225,** Farmer's Tax Guide.

Note: *For partnerships not required to use the accrual method of accounting, the rules of section 263A do* ***not*** *apply to expenses of raising:* ***(a)*** *any animal or* ***(b)*** *any plant that has a preproductive period of two years or less. Partners of partnerships not required to use the accrual method of accounting may elect to currently deduct the preproductive period expenses of certain plants that have a preproductive period of more than two years. Because the election to deduct these expenses is made by the partner, farm partnerships that are not required to use an accrual method should not capitalize such preproductive period expenses but should instead state them separately on an attachment to Schedule K, line 19, and on Schedule K-1, line 21, item h. See Temporary Regulations section 1.263A-1T(c) for more information.*

Line 6

Net Gain (Loss) From Form 4797

Caution: *Include only ordinary gains or losses from the sale, exchange, or involuntary conversion of assets used in a trade or business activity. Ordinary gains or losses from the sale, exchange, or involuntary conversion of rental activity assets will be reported separately on line 19 of Form 8825 or line 3 of Schedules K and K-1, generally as a part of the net income (loss) from the rental activity.*

In addition to other ordinary gains or losses shown on **Form 4797,** Sales of Business Property, and reported on line 6, a partnership that is a partner in another partnership must include on Form 4797 its share of ordinary gains (losses) from sales, exchanges, or involuntary conversions (other than casualties or thefts) of the other partnership's trade or business assets.

Do not include any recapture of expense deduction for recovery property (section 179). See the instructions for Schedule K-1, line 21, item e, and the Instructions for Form 4797 for more information.

Line 7

Other Income (Loss)

Enter on line 7 trade or business income (loss) that is not included on lines 1a through 6. Examples of such income include: **(1)** interest income derived in the ordinary course of the partnership's trade or business, such as interest charged on receivable balances; **(2)** recoveries of bad debts deducted in earlier years under the specific charge-off method; **(3)** taxable income from insurance proceeds; and **(4)** the amount of credit figured on **Form 6478,** Credit for Alcohol Used as Fuel. Also include on line 7 all section 481 income adjustments resulting from changes in accounting methods. Specific examples of section 481 adjustments that may be required include those that result from: **(1)** a required change from the reserve method to the specific charge-off method of accounting for bad debts; **(2)** a required change from the reserve method of accounting for vacation pay; and **(3)** a required change to the capitalization of past service pension costs under the uniform capitalization rules of section 263A. Show the computation of the section 481 adjustments on an attached schedule.

Do not include items requiring separate computations that must be reported on Schedules K and K-1. See the Instructions for Schedules K and K-1 later in these instructions.

The partnership must include as other income the recapture amount for section 280F if the business use of listed property drops to 50% or less. See section 280F(b)(3). To figure the recapture amount, the partnership must complete Part V of Form 4797.

Do not report portfolio or rental activity income (loss) on this line.

Deductions

Lines 9a through 20

Caution: *Report* ***only*** *trade or business activity deductions on lines 9a through 20.* ***Do not report rental activity expenses or deductions allocable to portfolio income on these lines.*** *Rental activity expenses are separately reported on Form 8825 or line 3 of Schedules K and K-1. Deductions allocable to portfolio income are separately reported on line 10 of Schedules K and K-1. See the instructions on* ***Passive Activity Limitations*** *beginning on page 5 for more information on rental activities and portfolio income.*

Do not report any nondeductible amounts (such as expenses connected with the production of tax-exempt income) on lines 9a through 20. If an expense is connected with both taxable income and nontaxable income, allocate a reasonable part of the expense to each kind of income. (See section 265.)

Do not take a deduction for any qualified expenditures to which an election under section 59(e) may apply. See the instructions for Schedules K and K-1, lines 18a and 18b, for information on how to report these amounts.

Do not deduct in this section items which section 702 and the regulations require that the partnership state separately and which require separate computations by the partners. For example, section 212 expenses incurred for the production of income instead of in a trade or business must be separately stated. Other items which must be separately stated include charitable contributions, foreign taxes paid, intangible drilling and development costs, soil and water conservation expenditures, and exploration expenditures. The distributive shares of these expenses are

reported as separate items to each partner on Schedule K-1.

Limitations on Deductions

a. Section 263A Uniform Capitalization Rules.—The uniform capitalization rules of section 263A require partnerships to capitalize or include in inventory certain costs incurred in connection with the production of real and personal tangible property held in inventory or held for sale in the ordinary course of business. Tangible personal property produced by a partnership includes a film, sound recording, video tape, book, or similar property. The rules also apply to personal property (tangible and intangible) acquired for resale. Partnerships subject to the rules are required to capitalize not only direct costs but an allocable portion of most indirect costs (including taxes) that benefit the assets produced or acquired for resale. Interest expense paid or incurred during the production period of certain property must be capitalized and is governed by special rules. For more information, see Notice 88-99, 1988-2 C.B. 422. The uniform capitalization rules also apply to the production of property constructed or improved by a partnership for use in its trade or business or in an activity engaged in for profit.

Section 263A does not apply to personal property acquired for resale if the taxpayer's annual average gross receipts are $10 million or less. It does not apply to timber or to most property produced under a long-term contract. Special rules apply to certain partnerships engaged in farming (see the note at the end of line 5 instructions). The rules do not apply to property which is produced for use by the taxpayer if substantial construction occurred before March 1, 1986.

In the case of inventory, some of the indirect expenses that must be capitalized are: administration expenses; taxes; depreciation; insurance; compensation paid to officers attributable to services; rework labor; and contributions to pension, stock bonus, and certain profit-sharing, annuity, or deferred compensation plans.

The costs required to be capitalized under section 263A are not deductible until the property to which the costs relate is sold, used, or otherwise disposed of by the partnership.

Research and experimental costs under section 174, intangible drilling costs for oil and gas and geothermal property, and mining exploration and development costs are reported separately to partners for purposes of determinations under section 59(e). Temporary Regulations section 1.263A-1T specifies other indirect costs that may be currently deducted and those that must be capitalized with respect to production or resale activities. For more information, see Temporary Regulations section 1.263A-1T; Notice 88-86, 1988-2 C.B. 401; and Notice 89-67, 1989-1 C.B. 723.

b. Transactions Between Related Taxpayers.—Generally, an accrual basis partnership may deduct business expenses and interest owed to a related party (including any partner) only in the tax year of the partnership that includes the day on which the payment is includible in the income of the related party. See section 267 for details.

c. Business Start-up Expenses.—Business start-up expenses are required to be capitalized unless an election is made to amortize them over a period of not less than 60 months. See section 195.

d. Organization and Syndication Fees.—Amounts paid or incurred to organize a partnership or promote the sale of an interest in a partnership are capital expenditures. They are not deductible as a current expense.

Under section 709, the partnership may elect to amortize organization expenses over a period of 60 or more months, beginning with the month in which the partnership begins business. (Include the amortization expense on line 19.) On the balance sheet (Schedule L) show the unamortized balance of organization costs and all syndication expenditures. See the instructions for line 10 for the treatment of organization and syndication expenses paid to a partner.

Syndication costs incurred in connection with the sale of limited partnership interests are capital expenditures and cannot be amortized by the partnership. See Revenue Ruling 85-32, 1985-1 C.B. 186.

e. Research Expenses.—Deductions under section 174 or any other provision for research expenses or basic research payments must be reduced by 50% of the partnership's research credit determined for the year, unless an election is made to have the research credit not apply. A similar rule applies where the partnership capitalizes, rather than expenses, qualified research expenses.

Line 9a

Salaries and Wages

Enter on line 9a the amount of salaries and wages paid or incurred for the tax year. Do not include salaries and wages reported elsewhere on the return, such as amounts included in cost of goods sold, elective contributions to a section 401(k) cash or deferred arrangement, or amounts contributed under a salary reduction SEP agreement.

Line 9b

Jobs Credit

Enter the total amount of the jobs credit computed by the partnership. Subtract this from the salaries and wages shown on line 9a. See the instructions for **Form 5884,** Jobs Credit, to figure the amount of credit to enter on line 9b.

Line 10

Guaranteed Payments to Partners

Deduct payments or credits to a partner for services or for the use of capital if the payments or credits are determined without regard to partnership income and are allocable to a trade or business activity. Do not include any payments and credits that should be capitalized. For example, although payments or credits to a partner for services rendered in organizing or syndicating a partnership may be guaranteed payments under section 707, they are not deductible on line 10. They are capital expenditures. (However, they should be separately reported on Schedules K and K-1, line 5.) Do not include distributive shares of partnership profits. Report the guaranteed payments to the appropriate partners on Schedule K-1, line 5.

Line 11

Rent

Enter rent paid on business property used in a trade or business activity. Do not deduct rent for a dwelling unit occupied by any partner for personal use.

If the partnership rented or leased a vehicle, enter the total annual rent or lease expense paid or incurred in the trade or business activities of the partnership. Also complete Part V of **Form 4562,** Depreciation and Amortization. If the partnership leased a vehicle for a term of 30 days or more, the deduction for vehicle lease expense may have to be reduced by an amount called the **inclusion amount.** You may have an inclusion amount if—

The lease term began:	And the vehicle's fair market value on the first day of the lease exceeded:
After 12/31/86	$12,800
After 4/2/85 but before 1/1/87	$23,000
After 6/18/84 but before 4/3/85	$34,500

Note: *If the partnership leased a vehicle during 1986, and the tax year beginning in 1990 is the first tax year the vehicle was used 50% or less for business, you will need to figure an additional inclusion amount. You must figure this additional amount even if the partnership had no inclusion amount using the table shown above.*

See **Pub. 917,** Business Use of a Car, for instructions on how to figure the inclusion amount and additional inclusion amount.

Line 12

Interest

Include only interest incurred in the trade or business activities of the partnership that is not claimed elsewhere on the return.

Do not include interest expense on debt required to be allocated to the production of qualified property. Interest that is allocable to certain property produced by a partnership for its own use or for sale must be capitalized. In addition, a partnership must also capitalize any interest on debt that is allocable to an asset used to produce the above property. A partner may have to capitalize interest that the partner incurs during the tax year with respect to the production expenditures of the partnership. Similarly, interest incurred by a partnership may have to be capitalized by a partner with respect to the partner's own production expenditures. The information required by the partner to properly capitalize interest

for this purpose must be provided by the partnership in an attachment to Schedule K-1. See section 263A(f) and Notice 88-99, 1988-2 C.B. 422.

Do not include interest expense on debt used to purchase rental property or debt used in a rental activity. Interest allocable to a rental real estate activity is reported on Form 8825 and is used in arriving at net income (loss) from rental real estate activities on line 2 of Schedules K and K-1. Interest allocable to a rental activity other than a rental real estate activity is included on line 3b of Schedule K and is used in arriving at net income (loss) from a rental activity (other than a rental real estate activity). This net amount is reported on line 3c of Schedule K and line 3 of Schedule K-1.

Do not include interest expense on debt used to buy property held for investment. Do not include interest expense that is clearly and directly allocable to interest, dividend, royalty, or annuity income not derived in the ordinary course of a trade or business. Interest paid or incurred on debt used to purchase or carry investment property is reported on line 12a of Schedules K and K-1. See the instructions for line 12a of Schedules K and K-1 and Form 4952 for more information on investment property.

Do not include interest on debt proceeds allocated to distributions made to partners during the tax year. Instead, report such interest on line 11 of Schedules K and K-1. To determine the amount to allocate to distributions to partners, see Notice 89-35, 1989-1 C.B. 675.

Temporary Regulations section 1.163-8T gives rules for allocating interest expense among activities so that the passive activity limitation (section 469), investment interest limitation, and the personal interest limitation can be properly computed. Generally, interest expense is allocated in the same manner that debt is allocated. Debt is allocated by tracing disbursements of the debt proceeds to specific expenditures, as provided in the regulations. These regulations give rules for tracing debt proceeds to expenditures.

See Temporary Regulations section 1.163-8T for special rules on the allocation of interest expense, transitional rules, and other details.

Note: *Interest paid by a partnership to a partner for the use of capital should be entered on line 10. Generally, prepaid interest can only be deducted over the period to which the prepayment applies (section 461(g)). Interest incurred during construction or improvement of real property, personal property that has a class life of 20 years or more, or other tangible property requiring more than 2 years (1 year in the case of property costing more than $1 million) to produce or construct generally must be capitalized. See section 263A for more information. The limitations on deductions for unpaid interest are in Regulations section 1.267(b)-1(b).*

Line 13

Taxes

Enter taxes paid or incurred in the trade or business activities of the partnership, if not reflected in cost of goods sold. Federal import duties and Federal excise and stamp taxes are deductible only if paid or incurred in carrying on the trade or business of the partnership.

Do not deduct taxes, including state and local sales tax paid or accrued in connection with the acquisition or disposition of business property. These taxes must be added to the cost of the property, or, in the case of a disposition, subtracted from the amount realized. See section 164.

Do not deduct taxes assessed against local benefits to the extent that they increase the value of the property assessed (such as for paving, etc.), Federal income taxes, estate, inheritance, legacy, succession, and gift taxes, or taxes reported elsewhere on the return.

Do not deduct section 901 foreign taxes. Report these taxes separately on Schedules K and K-1, line 17e.

Do not report on line 13 taxes allocable to portfolio income or to a rental activity. Taxes allocable to a rental real estate activity are reported on Form 8825. Taxes allocable to a rental activity other than a rental real estate activity are reported on line 3b of Schedule K. Taxes allocable to portfolio income are reported on line 10 of Schedules K and K-1.

See section 263A(a) for rules on capitalization of allocable costs (including taxes) for any property.

Line 14

Bad Debts

Enter the total debts that became worthless in whole or in part during the year, but only to the extent such debts relate to a trade or business activity.

Caution: *Cash method taxpayers cannot take a bad debt deduction unless the amount was previously included in income.*

Line 15

Repairs

Enter the cost of incidental repairs that do not add to the value of the property or appreciably prolong its life, but only to the extent that such repairs relate to a trade or business activity and are not claimed elsewhere on the return. New buildings, machinery, or permanent improvements that increase the value of the property are not deductible. They are chargeable to capital accounts and may be depreciated or amortized.

Line 16

Depreciation

On line 16a enter **only** the depreciation claimed on assets used in a trade or business activity. Enter on line 16b the depreciation reported elsewhere on the return (e.g., on Schedule A) that is attributable to assets used in trade or business activities. See the Instructions for Form 4562 or **Pub. 534,** Depreciation, to figure the amount of depreciation to enter on this line. For depreciation, you must complete and attach Form 4562 only if the partnership placed property in service during 1990 or claims depreciation on any car or other listed property.

Do not include any section 179 expense deduction on this line. This amount is not deducted by the partnership. Instead, it is passed through to the partners on line 9 of Schedule K-1.

Line 17

Depletion

If the partnership claims a deduction for timber depletion, complete and attach **Form T,** Forest Industries Schedules.

Caution: *Do not report depletion deductions for oil and gas properties on this line. Each partner figures depletion on oil and gas properties under section 613A(c)(7)(D). See the instructions for Schedule K-1, line 21, item c, for the information on oil and gas depletion that must be supplied to the partners by the partnership.*

Line 18a

Retirement Plans, etc.

Do not deduct payments for partners to retirement or deferred compensation plans including IRAs, Keoghs, and Simplified Employee Pension (SEP) plans on this line. These amounts are reported on Schedule K-1, line 11, and are deducted by the partners on their own returns.

Enter the deductible contributions not claimed elsewhere on the return made by the partnership for its common-law employees under a qualified pension, profit-sharing, annuity, or SEP plan, and under any other deferred compensation plan.

If the partnership contributes to an Individual Retirement Arrangement (IRA) for employees, include the contribution in salaries and wages on page 1, line 9a, or Schedule A, line 3, and not on line 18a.

Employers who maintain a pension, profit-sharing, or other funded deferred compensation plan (other than a SEP), whether or not the plan is qualified under the Internal Revenue Code and whether or not a deduction is claimed for the current year, generally are required to file one of the following forms:

- **Form 5500,** Annual Return/Report of Employee Benefit Plan, for each plan with 100 or more participants.
- **Form 5500-C/R,** Return/Report of Employee Benefit Plan, for each plan with fewer than 100 participants.
- **Form 5500EZ,** Annual Return of One-Participant (Owners and Their Spouses) Pension Benefit Plan, for each plan which covers only partners or partners and their spouses.

There are penalties for not filing these forms on time.

See **Pub. 1048,** Filing Requirements for Employee Benefit Plans, for more information.

Line 18b

Employee Benefit Programs

Enter the partnership's contributions to employee benefit programs not claimed elsewhere on the return (for example, insurance, health, and welfare programs) that are not part of a pension, profit-sharing, etc., plan included on line 18a.

Do not include any deduction allowable under the provisions of section 162(l) with respect to amounts paid during the tax year for insurance which constitutes medical care for a partner, a partner's spouse, or a partner's dependents. Instead, report such amounts on Schedules K and K-1, line 11.

Line 19

Other Deductions

Enter any other allowable deductions related to a trade or business activity for which there is no separate line on page 1 of Form 1065.

A partnership is not allowed the deduction for net operating losses.

Do not include items requiring separate computation that must be reported on Schedule K-1.

Do not include qualified expenditures to which an election under section 59(e) may apply.

Include on line 19 the deduction taken for amortization. You must complete and attach Form 4562 if the partnership is claiming amortization of costs that begins during its 1990 tax year. The instructions for Form 4562 provide code section references for specific amortizable property. See Pub. 535 for more information on amortization.

Generally, the partnership can deduct only 80% of the amount otherwise allowable for meals and entertainment expenses paid or incurred in its trade or business. In addition, meals must not be lavish or extravagant; a bona fide business discussion must occur during, immediately before, or immediately after the meal; and a partner or employee of the partnership must be present at the meal. See section 274(k)(2) for exceptions.

Additional limitations apply to deductions for gifts, skybox rentals, luxury water travel, convention expenses, and entertainment tickets.

Generally, a partnership can deduct all other ordinary and necessary travel and entertainment expenses paid or incurred in its trade or business. However, it cannot deduct an expense paid or incurred for a facility (such as a yacht or hunting lodge) that is used for an activity that is usually considered entertainment, amusement, or recreation. *(**Note:** The partnership may be able to deduct the expense if the amount is treated as compensation and reported on Form W-2 for an employee or on Form 1099-MISC for an independent contractor.)*

See section 274; **Pub. 463**, Travel, Entertainment, and Gift Expenses; and Pub. 917 for more details.

Schedule A

Cost of Goods Sold

Section 263A Uniform Capitalization Rules.—The uniform capitalization rules of section 263A are discussed under **Limitations on Deductions** on page 12. See those instructions before completing Schedule A.

Line 2

Purchases

Show withdrawals for personal use on Schedules M and K-1 (Item K) as distributions to partners, if Schedule M and Item K on Schedules K-1 are required.

Line 4a.—An entry on this line is required only for partnerships that have elected a simplified method. In the case of partnerships that have elected the simplified production method, additional section 263A costs are generally those costs, other than interest, that were not capitalized or included in inventory costs under the taxpayer's method of accounting immediately prior to the effective date in Temporary Regulations section 1.263A-1T but that are now required to be capitalized under section 263A. Interest is to be accounted for separately. In the case of partnerships that have elected a simplified resale method, additional section 263A costs are generally those costs incurred with respect to the following categories: off-site storage or warehousing; purchasing; handling, processing, assembly, and repacking; and general and administrative costs (mixed service costs). Enter on line 4a the balance of section 263A costs paid or incurred during the tax year not included on lines 2 and 3. See Temporary Regulations section 1.263A-1T for more information.

Line 4b.—Enter on line 4b any costs paid or incurred during the tax year and not entered on lines 2 through 4a.

Line 6.—See Temporary Regulations section 1.263A-1T for more information on computing the amount of additional section 263A costs to be capitalized and added to ending inventory.

Lines 8a and 8b

Inventory Valuation Methods

Inventories can be valued at: **(1)** cost; **(2)** cost or market value (whichever is lower); or **(3)** any other method approved by the Commissioner that conforms with the provisions of the applicable regulations cited below.

Taxpayers using erroneous valuation methods must request permission to change to a method permitted for Federal tax purposes. For more information, see Regulations section 1.446-1(e)(3); Revenue Procedure 84-74, 1984-2 C.B. 736; Notice 88-78, 1988-2 C.B. 394; and Notice 89-67.

Check the methods used for valuing inventories on line 8a. Under "lower of cost or market," **market** generally refers to normal market conditions when there is a current bid price prevailing at the date the inventory is valued. When no regular open market exists or when quotations are nominal because of inactive market conditions, use fair market prices from the most reliable sales or purchase transactions that occurred near the date the inventory is valued. For additional requirements, see Regulations section 1.471-4 and Notice 88-86, 1988-2 C.B. 401 (Section IV(N)).

Inventory may be valued below cost when the merchandise is unsalable at normal prices or unusable in the normal way because the goods are "subnormal" (that is, because of damage, imperfections, shop wear, etc.) within the meaning of Regulations section 1.471-2(c). Such goods may be valued at a current bona fide selling price minus the direct cost of disposition (but not less than scrap value) if the taxpayer can establish such a price. See Regulations section 1.471-2(c) for additional requirements.

On line 8a(iv), check the box provided if the partnership used a method of inventory valuation other than those described on line 8a(i), (ii), or (iii), and attach a statement describing the method used.

If this is the first year the "Last-in First-out" (LIFO) inventory method was either adopted or extended to inventory goods not previously valued under the LIFO method, attach **Form 970,** Application To Use LIFO Inventory Method, or a statement with the information required by Form 970. Also check the LIFO box on line 8b.

If you have changed or extended your inventory method to LIFO and have had to "write up" your opening inventory to cost in the year of election, report the effect of this write up as income (line 7, page 1, Form 1065) proportionately over a 3-year period that begins in the tax year you made this election.

Schedule L

Balance Sheets

Note: *Domestic partnerships with 10 or fewer partners may not have to complete Schedule L. See the instructions for Question N for the specific requirements to qualify for this exception.*

The balance sheets should agree with the partnership's books and records. Attach a statement explaining any differences. Balance sheet amounts shown on Schedule L should not be adjusted to reflect any revaluation under Regulations section 1.704-1(b)(2)(iv)(f).

Partnerships reporting to the Interstate Commerce Commission or to any national, state, municipal, or other public officer may send copies of their balance sheets prescribed by the Commission or state or municipal authorities, as of the beginning

Form **1065**
Department of the Treasury
Internal Revenue Service

U.S. Partnership Return of Income

For calendar year 1990, or tax year beginning _____, 1990, and ending _____, 19___.
▶ See separate instructions.

OMB No. 1545-0099

1990

A Principal business activity	Use IRS label. Otherwise, please print or type.	Name	D Employer identification number
B Principal product or service		Number, street, and room or suite no. (If a P.O. box, see page 9 of the instructions.)	E Date business started
C Business code number		City or town, state, and ZIP code	F Total assets (see Specific Instructions) $

G Check applicable boxes: (1) ☐ Initial return (2) ☐ Final return (3) ☐ Change in address (4) ☐ Amended return

H Check accounting method: (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (specify) ▶ _____

		Yes	No
I	Number of partners in this partnership ▶ _____		
J	Is this partnership a limited partnership?		
K	Are any partners in this partnership also partnerships?		
L	Is this partnership a partner in another partnership?		
M	Is this partnership subject to the consolidated audit procedures of sections 6221 through 6233? If "Yes," see "Designation of Tax Matters Partner" on page 2		
N	Does this partnership meet **all** the requirements shown in the instructions for **Question N**?		
O	Does this partnership have any foreign partners?		
P	Is this partnership a publicly traded partnership as defined in section 469(k)(2)?		
Q	Has this partnership filed, or is it required to file, **Form 8264**, Application for Registration of a Tax Shelter?		
R	Was there a distribution of property or a transfer (for example, by sale or death) of a partnership interest during the tax year? If "Yes," see the instructions concerning an election to adjust the basis of the partnership's assets under section 754		
S	At any time during the tax year, did the partnership have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? (See the instructions for exceptions and filing requirements for form TD F 90-22.1.) If "Yes," enter the name of the foreign country. ▶ _____		
T	Was the partnership the grantor of, or transferor to, a foreign trust which existed during the current tax year, whether or not the partnership or any partner has any beneficial interest in it? If "Yes," you may have to file Forms 3520, 3520-A, or 926		

Caution: *Include **only** trade or business income and expenses on lines 1a through 21 below. See the instructions for more information.*

Income	1a	Gross receipts or sales	1a		
	b	Less returns and allowances	1b		1c
	2	Cost of goods sold (Schedule A, line 7)			2
	3	Gross profit—Subtract line 2 from line 1c			3
	4	Ordinary income (loss) from other partnerships and fiduciaries *(attach schedule)*			4
	5	Net farm profit (loss) *(attach Schedule F (Form 1040))*			5
	6	Net gain (loss) from Form 4797, Part II, line 18			6
	7	Other income (loss) (see instructions) *(attach schedule)*			7
	8	**Total** income (loss)—Combine lines 3 through 7			8
Deductions (see instructions for limitations)	9a	Salaries and wages (other than to partners)	9a		
	b	Less jobs credit	9b		9c
	10	Guaranteed payments to partners			10
	11	Rent			11
	12	Interest			12
	13	Taxes			13
	14	Bad debts			14
	15	Repairs			15
	16a	Depreciation (see instructions)	16a		
	b	Less depreciation reported on Schedule A and elsewhere on return	16b		16c
	17	Depletion **(Do not deduct oil and gas depletion.)**			17
	18a	Retirement plans, etc.			18a
	b	Employee benefit programs			18b
	19	Other deductions *(attach schedule)*			19
	20	**Total** deductions—Add lines 9c through 19			20
	21	Ordinary income (loss) from trade or business activities—Subtract line 20 from line 8			21

Please Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than general partner) is based on all information of which preparer has any knowledge.

▶ _____ Signature of general partner ▶ _____ Date

Paid Preparer's Use Only

Preparer's signature ▶ _____ Date _____ Check if self-employed ▶ ☐ Preparer's social security no. _____

Firm's name (or yours if self-employed) and address ▶ _____ E.I. No. ▶ _____ ZIP code ▶ _____

Schedule A Cost of Goods Sold

1	Inventory at beginning of year	1	
2	Purchases less cost of items withdrawn for personal use	2	
3	Cost of labor	3	
4a	Additional section 263A costs (see instructions) *(attach schedule)*	4a	
b	Other costs *(attach schedule)*	4b	
5	Total—Add lines 1 through 4b	5	
6	Inventory at end of year	6	
7	Cost of goods sold—Subtract line 6 from line 5. Enter here and on page 1, line 2	7	

8a Check all methods used for valuing closing inventory:

(i) ☐ Cost (ii) ☐ Lower of cost or market as described in Regulations section 1.471-4

(iii) ☐ Writedown of "subnormal" goods as described in Regulations section 1.471-2(c)

(iv) ☐ Other (specify method used and attach explanation) ▶

b Check this box if the LIFO inventory method was adopted this tax year for any goods *(if checked, attach Form 970)* ▶ ☐

c Do the rules of section 263A (with respect to property produced or acquired for resale) apply to the partnership? ☐ Yes ☐ No

d Was there any change in determining quantities, cost, or valuations between opening and closing inventory? ☐ Yes ☐ No
If "Yes," attach explanation.

Schedule L Balance Sheets

Caution: *Read the instructions for* ***Question N*** *on page 9 of the instructions before completing Schedules L and M.*

Assets	Beginning of tax year (a)	Beginning of tax year (b)	End of tax year (c)	End of tax year (d)
1 Cash				
2a Trade notes and accounts receivable				
b Less allowance for bad debts				
3 Inventories				
4 U.S. government obligations				
5 Tax-exempt securities				
6 Other current assets *(attach schedule)*				
7 Mortgage and real estate loans				
8 Other investments *(attach schedule)*				
9a Buildings and other depreciable assets				
b Less accumulated depreciation				
10a Depletable assets				
b Less accumulated depletion				
11 Land (net of any amortization)				
12a Intangible assets (amortizable only)				
b Less accumulated amortization				
13 Other assets *(attach schedule)*				
14 **Total** assets				
Liabilities and Capital				
15 Accounts payable				
16 Mortgages, notes, bonds payable in less than 1 year				
17 Other current liabilities *(attach schedule)*				
18 All nonrecourse loans				
19 Mortgages, notes, bonds payable in 1 year or more				
20 Other liabilities *(attach schedule)*				
21 Partners' capital accounts				
22 **Total** liabilities and capital				

Schedule M Reconciliation of Partners' Capital Accounts

(Show reconciliation of each partner's capital account on Schedule K-1 (Form 1065), Item K.)

(a) Partners' capital accounts at beginning of year	(b) Capital contributed during year	(c) Income (loss) from lines 1, 2, 3c, and 4 of Schedule K	(d) Income not included in column (c), plus nontaxable income	(e) Losses not included in column (c), plus unallowable deductions	(f) Withdrawals and distributions	(g) Partners' capital accounts at end of year (combine columns (a) through (f))
				( )	( )	

Designation of Tax Matters Partner (See instructions.)

Enter below the general partner designated as the tax matters partner (TMP) for the tax year of this return:

Name of designated TMP ▶ Identifying number of TMP ▶

Address of designated TMP ▶

Form **1065**
Department of the Treasury
Internal Revenue Service

U.S. Partnership Return of Income

For calendar year 1990, or tax year beginning _____, 1990, and ending _____, 19___.
▶ See separate instructions.

OMB No. 1545-0099

1990

A Principal business activity	Use IRS label. Otherwise, please print or type.	Name	D Employer identification number
B Principal product or service		Number, street, and room or suite no. (If a P.O. box, see page 9 of the instructions.)	E Date business started
C Business code number		City or town, state, and ZIP code	F Total assets (see Specific Instructions) $

G Check applicable boxes: (1) ☐ Initial return (2) ☐ Final return (3) ☐ Change in address (4) ☐ Amended return

H Check accounting method: (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (specify) ▶ _____

		Yes	No
I	Number of partners in this partnership ▶ _____		
J	Is this partnership a limited partnership?		
K	Are any partners in this partnership also partnerships?		
L	Is this partnership a partner in another partnership?		
M	Is this partnership subject to the consolidated audit procedures of sections 6221 through 6233? If "Yes," see "Designation of Tax Matters Partner" on page 2		
N	Does this partnership meet **all** the requirements shown in the instructions for **Question N**?		
O	Does this partnership have any foreign partners?		
P	Is this partnership a publicly traded partnership as defined in section 469(k)(2)?		
Q	Has this partnership filed, or is it required to file, **Form 8264**, Application for Registration of a Tax Shelter?		
R	Was there a distribution of property or a transfer (for example, by sale or death) of a partnership interest during the tax year? If "Yes," see the instructions concerning an election to adjust the basis of the partnership's assets under section 754		
S	At any time during the tax year, did the partnership have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? (See the instructions for exceptions and filing requirements for form TD F 90-22.1.) If "Yes," enter the name of the foreign country. ▶ _____		
T	Was the partnership the grantor of, or transferor to, a foreign trust which existed during the current tax year, whether or not the partnership or any partner has any beneficial interest in it? If "Yes," you may have to file Forms 3520, 3520-A, or 926		

Caution: *Include **only** trade or business income and expenses on lines 1a through 21 below. See the instructions for more information.*

Income	1a	Gross receipts or sales	1a		
	b	Less returns and allowances	1b		1c
	2	Cost of goods sold (Schedule A, line 7)			2
	3	Gross profit—Subtract line 2 from line 1c			3
	4	Ordinary income (loss) from other partnerships and fiduciaries *(attach schedule)*			4
	5	Net farm profit (loss) *(attach Schedule F (Form 1040))*			5
	6	Net gain (loss) from Form 4797, Part II, line 18			6
	7	Other income (loss) (see instructions) *(attach schedule)*			7
	8	**Total** income (loss)—Combine lines 3 through 7			8
Deductions (see instructions for limitations)	9a	Salaries and wages (other than to partners)	9a		
	b	Less jobs credit	9b		9c
	10	Guaranteed payments to partners			10
	11	Rent			11
	12	Interest			12
	13	Taxes			13
	14	Bad debts			14
	15	Repairs			15
	16a	Depreciation (see instructions)	16a		
	b	Less depreciation reported on Schedule A and elsewhere on return	16b		16c
	17	Depletion **(Do not deduct oil and gas depletion.)**			17
	18a	Retirement plans, etc.			18a
	b	Employee benefit programs			18b
	19	Other deductions *(attach schedule)*			19
	20	**Total** deductions—Add lines 9c through 19			20
	21	Ordinary income (loss) from trade or business activities—Subtract line 20 from line 8			21

Please Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than general partner) is based on all information of which preparer has any knowledge.

▶ _____ Signature of general partner ▶ _____ Date

Paid Preparer's Use Only

Preparer's signature ▶ _____ Date _____ Check if self-employed ▶ ☐ Preparer's social security no. _____

Firm's name (or yours if self-employed) and address ▶ _____ E.I. No. ▶ _____ ZIP code ▶ _____

Schedule A Cost of Goods Sold

1	Inventory at beginning of year	1	
2	Purchases less cost of items withdrawn for personal use	2	
3	Cost of labor	3	
4a	Additional section 263A costs (see instructions) *(attach schedule)*	4a	
b	Other costs *(attach schedule)*	4b	
5	Total—Add lines 1 through 4b	5	
6	Inventory at end of year	6	
7	Cost of goods sold—Subtract line 6 from line 5. Enter here and on page 1, line 2	7	

8a Check all methods used for valuing closing inventory:

(i) ☐ Cost (ii) ☐ Lower of cost or market as described in Regulations section 1.471-4

(iii) ☐ Writedown of "subnormal" goods as described in Regulations section 1.471-2(c)

(iv) ☐ Other (specify method used and attach explanation) ▶

b Check this box if the LIFO inventory method was adopted this tax year for any goods *(if checked, attach Form 970)* ▶ ☐

c Do the rules of section 263A (with respect to property produced or acquired for resale) apply to the partnership? ☐ Yes ☐ No

d Was there any change in determining quantities, cost, or valuations between opening and closing inventory? ☐ Yes ☐ No
If "Yes," attach explanation.

Schedule L Balance Sheets

Caution: *Read the instructions for* ***Question N*** *on page 9 of the instructions before completing Schedules L and M.*

Assets	Beginning of tax year (a)	Beginning of tax year (b)	End of tax year (c)	End of tax year (d)
1 Cash				
2a Trade notes and accounts receivable				
b Less allowance for bad debts				
3 Inventories				
4 U.S. government obligations				
5 Tax-exempt securities				
6 Other current assets *(attach schedule)*				
7 Mortgage and real estate loans				
8 Other investments *(attach schedule)*				
9a Buildings and other depreciable assets				
b Less accumulated depreciation				
10a Depletable assets				
b Less accumulated depletion				
11 Land (net of any amortization)				
12a Intangible assets (amortizable only)				
b Less accumulated amortization				
13 Other assets *(attach schedule)*				
14 **Total** assets				
Liabilities and Capital				
15 Accounts payable				
16 Mortgages, notes, bonds payable in less than 1 year				
17 Other current liabilities *(attach schedule)*				
18 All nonrecourse loans				
19 Mortgages, notes, bonds payable in 1 year or more				
20 Other liabilities *(attach schedule)*				
21 Partners' capital accounts				
22 **Total** liabilities and capital				

Schedule M Reconciliation of Partners' Capital Accounts

(Show reconciliation of each partner's capital account on Schedule K-1 (Form 1065), Item K.)

(a) Partners' capital accounts at beginning of year	(b) Capital contributed during year	(c) Income (loss) from lines 1, 2, 3c, and 4 of Schedule K	(d) Income not included in column (c), plus nontaxable income	(e) Losses not included in column (c), plus unallowable deductions	(f) Withdrawals and distributions	(g) Partners' capital accounts at end of year (combine columns (a) through (f))
				( )	( )	

Designation of Tax Matters Partner (See instructions.)

Enter below the general partner designated as the tax matters partner (TMP) for the tax year of this return:

Name of designated TMP ▶ Identifying number of TMP ▶

Address of designated TMP ▶

Schedule K Partners' Shares of Income, Credits, Deductions, Etc.

	(a) Distributive share items			(b) Total amount
Income (Loss)	1 Ordinary income (loss) from trade or business activities (page 1, line 21)			1
	2 Net income (loss) from rental real estate activities *(attach Form 8825)*			2
	3a Gross income from other rental activities	3a		
	b Less expenses *(attach schedule)*	3b		
	c Net income (loss) from other rental activities			3c
	4 Portfolio income (loss) (see instructions):			
	a Interest income			4a
	b Dividend income			4b
	c Royalty income			4c
	d Net short-term capital gain (loss) *(attach Schedule D (Form 1065))*			4d
	e Net long-term capital gain (loss) *(attach Schedule D (Form 1065))*			4e
	f Other portfolio income (loss) *(attach schedule)*			4f
	5 Guaranteed payments to partners			5
	6 Net gain (loss) under section 1231 (other than due to casualty or theft) *(attach Form 4797)*			6
	7 Other income (loss) *(attach schedule)*			7
Deductions	8 Charitable contributions (see instructions) *(attach list)*			8
	9 Section 179 expense deduction *(attach Form 4562)*			9
	10 Deductions related to portfolio income (see instructions) (itemize)			10
	11 Other deductions *(attach schedule)*			11
Investment Interest	12a Interest expense on investment debts			12a
	b (1) Investment income included on lines 4a through 4f above			12b(1)
	(2) Investment expenses included on line 10 above			12b(2)
Credits	13a Credit for income tax withheld			13a
	b Low-income housing credit (see instructions):			
	(1) From partnerships to which section 42(j)(5) applies for property placed in service before 1990			13b(1)
	(2) Other than on line 13b(1) for property placed in service before 1990			13b(2)
	(3) From partnerships to which section 42(j)(5) applies for property placed in service after 1989			13b(3)
	(4) Other than on line 13b(3) for property placed in service after 1989			13b(4)
	c Qualified rehabilitation expenditures related to rental real estate activities *(attach Form 3468)*			13c
	d Credits (other than credits shown on lines 13b and 13c) related to rental real estate activities (see instructions)			13d
	e Credits related to other rental activities (see instructions)			13e
	14 Other credits (see instructions)			14
Self-Employment	15a Net earnings (loss) from self-employment			15a
	b Gross farming or fishing income			15b
	c Gross nonfarm income			15c
Adjustments and Tax Preference Items	16a Accelerated depreciation of real property placed in service before 1987			16a
	b Accelerated depreciation of leased personal property placed in service before 1987			16b
	c Depreciation adjustment on property placed in service after 1986			16c
	d Depletion (other than oil and gas)			16d
	e (1) Gross income from oil, gas, and geothermal properties			16e(1)
	(2) Deductions allocable to oil, gas, and geothermal properties			16e(2)
	f Other adjustments and tax preference items *(attach schedule)*			16f
Foreign Taxes	17a Type of income ►			
	b Foreign country or U.S. possession ►			
	c Total gross income from sources outside the U.S. *(attach schedule)*			17c
	d Total applicable deductions and losses *(attach schedule)*			17d
	e Total foreign taxes (check one): ► ☐ Paid ☐ Accrued			17e
	f Reduction in taxes available for credit *(attach schedule)*			17f
	g Other foreign tax information *(attach schedule)*			17g
Other	18a Total expenditures to which a section 59(e) election may apply			18a
	b Type of expenditures ►			
	19 Other items and amounts required to be reported separately to partners (see instructions) *(attach schedule)*			
	20a Total distributive income/payment items—Combine lines 1 through 7 above			20a

Analysis	b Analysis by type of partner:	(a) Corporate	(b) Individual i. Active	(b) Individual ii. Passive	(c) Partnership	(d) Exempt organization	(e) Nominee/Other
	(1) General partners						
	(2) Limited partners						

Schedule K Partners' Shares of Income, Credits, Deductions, Etc.

	(a) Distributive share items		(b) Total amount
Income (Loss)	1 Ordinary income (loss) from trade or business activities (page 1, line 21)	1	
	2 Net income (loss) from rental real estate activities *(attach Form 8825)*	2	
	3a Gross income from other rental activities	3a	
	b Less expenses *(attach schedule)*	3b	
	c Net income (loss) from other rental activities	3c	
	4 Portfolio income (loss) (see instructions):		
	a Interest income	4a	
	b Dividend income	4b	
	c Royalty income	4c	
	d Net short-term capital gain (loss) *(attach Schedule D (Form 1065))*	4d	
	e Net long-term capital gain (loss) *(attach Schedule D (Form 1065))*	4e	
	f Other portfolio income (loss) *(attach schedule)*	4f	
	5 Guaranteed payments to partners	5	
	6 Net gain (loss) under section 1231 (other than due to casualty or theft) *(attach Form 4797)*	6	
	7 Other income (loss) *(attach schedule)*	7	
Deductions	8 Charitable contributions (see instructions) *(attach list)*	8	
	9 Section 179 expense deduction *(attach Form 4562)*	9	
	10 Deductions related to portfolio income (see instructions) (itemize)	10	
	11 Other deductions *(attach schedule)*	11	
Investment Interest	12a Interest expense on investment debts	12a	
	b (1) Investment income included on lines 4a through 4f above	12b(1)	
	(2) Investment expenses included on line 10 above	12b(2)	
Credits	13a Credit for income tax withheld	13a	
	b Low-income housing credit (see instructions):		
	(1) From partnerships to which section 42(j)(5) applies for property placed in service before 1990	13b(1)	
	(2) Other than on line 13b(1) for property placed in service before 1990	13b(2)	
	(3) From partnerships to which section 42(j)(5) applies for property placed in service after 1989	13b(3)	
	(4) Other than on line 13b(3) for property placed in service after 1989	13b(4)	
	c Qualified rehabilitation expenditures related to rental real estate activities *(attach Form 3468)*	13c	
	d Credits (other than credits shown on lines 13b and 13c) related to rental real estate activities (see instructions)	13d	
	e Credits related to other rental activities (see instructions)	13e	
	14 Other credits (see instructions)	14	
Self-Employment	15a Net earnings (loss) from self-employment	15a	
	b Gross farming or fishing income	15b	
	c Gross nonfarm income	15c	
Adjustments and Tax Preference Items	16a Accelerated depreciation of real property placed in service before 1987	16a	
	b Accelerated depreciation of leased personal property placed in service before 1987	16b	
	c Depreciation adjustment on property placed in service after 1986	16c	
	d Depletion (other than oil and gas)	16d	
	e (1) Gross income from oil, gas, and geothermal properties	16e(1)	
	(2) Deductions allocable to oil, gas, and geothermal properties	16e(2)	
	f Other adjustments and tax preference items *(attach schedule)*	16f	
Foreign Taxes	17a Type of income ▶		
	b Foreign country or U.S. possession ▶		
	c Total gross income from sources outside the U.S. *(attach schedule)*	17c	
	d Total applicable deductions and losses *(attach schedule)*	17d	
	e Total foreign taxes (check one): ▶ ☐ Paid ☐ Accrued	17e	
	f Reduction in taxes available for credit *(attach schedule)*	17f	
	g Other foreign tax information *(attach schedule)*	17g	
Other	18a Total expenditures to which a section 59(e) election may apply	18a	
	b Type of expenditures ▶		
	19 Other items and amounts required to be reported separately to partners (see instructions) *(attach schedule)*		
Analysis	20a Total distributive income/payment items—Combine lines 1 through 7 above	20a	

b Analysis by type of partner:	(a) Corporate	(b) Individual i. Active	(b) Individual ii. Passive	(c) Partnership	(d) Exempt organization	(e) Nominee/Other
(1) General partners						
(2) Limited partners						

SCHEDULE D (Form 1065)

Department of the Treasury
Internal Revenue Service

Capital Gains and Losses

▶ Attach to Form 1065.

OMB No. 1545-0099

1990

Name of partnership

Employer identification number

Part I Short-Term Capital Gains and Losses—Assets held one year or less

(a) Description of property (Example, 100 shares 7% preferred of "Z" Co.)	(b) Date acquired (month, day, year)	(c) Date sold (month, day, year)	(d) Sales price (see instructions)	(e) Cost or other basis (see instructions)	(f) Gain (loss) ((d) minus (e))
1					

2 Short-term capital gain from installment sales from Form 6252, line 22 or 30 . . . . . | |

3 Partnership's share of net short-term capital gain (loss), including specially allocated short-term capital gains (losses), from other partnerships and from fiduciaries . . . . . | |

4 Net short-term capital gain (loss)—Combine lines 1 through 3. Enter here and on Form 1065, Schedule K, line 4d or 7 . . . . . | |

Part II Long-Term Capital Gains and Losses—Assets held more than one year

5					

6 Long-term capital gain from installment sales from Form 6252, line 22 or 30 . . . . . | |

7 Partnership's share of net long-term capital gain (loss), including specially allocated long-term capital gains (losses), from other partnerships and from fiduciaries . . . . . | |

8 Capital gain distributions . . . . . | |

9 Net long-term capital gain (loss)—Combine lines 5 through 8. Enter here and on Form 1065, Schedule K, line 4e or 7 . . . . . | |

General Instructions

(Section references are to the Internal Revenue Code.)

Purpose of Schedule.—Use Schedule D (Form 1065) to report sales or exchanges of capital assets, except capital gains (losses) that are specially allocated to any partners.

Specially allocated capital gains (losses) received by the partnership as a partner in other partnerships and from fiduciaries are to be entered on Schedule D, line 3 or 7, whichever applies. Capital gains (losses) of the partnership that are specially allocated to partners should be entered directly on line 4d, 4e, or 7 of Schedules K and K-1, whichever applies. Do not include these amounts on Schedule D. See **How Income Is Shared Among Partners** in the General Instructions for Schedules K and K-1 of the Instructions for Form 1065 for more information.

General Information.—To report sales or exchanges of property other than capital assets, including the sale or exchange of property used in a trade or business and involuntary conversions (other than casualties and thefts), see **Form 4797,** Sales of Business Property, and related instructions. If property is involuntarily converted because of a casualty or theft, use **Form 4684,** Casualties and Thefts.

For amounts received from an installment sale, the holding period rule in effect in the year of sale will determine the treatment of the amounts received as long-term or short-term capital gain.

Report every sale or exchange of property in detail, even though there is no gain or loss.

For more information, see **Publication 544,** Sales and Other Dispositions of Assets.

Note: *For information on liquidations of corporations, see* ***Publication 542****, Tax Information on Corporations, and Publication 544.*

What Are Capital Assets?—Each item of property the partnership held (whether or not connected with its trade or business) is a capital asset **except:**

1. Assets that can be inventoried or property held mainly for sale to customers.
2. Depreciable or real property used in the trade or business.
3. Certain copyrights; literary, musical, or artistic compositions; letters or memorandums; or similar property.
4. Accounts or notes receivable acquired in the ordinary course of trade or business for services rendered or from the sale of property described in 1 above.
5. U.S. Government publications, including the Congressional Record, that the partnership received from the government, other than by purchase at the normal sales price, or that the partnership got from another taxpayer who had received it in a similar way, if the partnership's basis is determined by reference to the previous owner.

Exchange of "Like-Kind" Property.—Use **Form 8824,** Like-Kind Exchanges, to report an exchange of like-kind property. Also report the exchange on Schedule D or on Form 4797, whichever applies. Complete and attach a Form 8824 to the partnership's return for each exchange. The partnership must report an exchange of business or investment property for "like-kind" property even if no gain or loss on the property is recognized.

If Schedule D is used to report a like-kind exchange, write **"From Form 8824"** on the appropriate line (line 1 or 5, column (a)). Skip columns (b) through (e) and enter the gain or loss, if any, from Form 8824 in column (f). Write in the top margin of Schedule D **"Like-Kind Exchange"** or, if an exchange involved a related party, write **"Related Party Like-Kind Exchange."** See Form 8824 and its instructions for details.

Items for Special Treatment and Special Cases.—The following items may require special treatment:

- Transactions by a securities dealer.
- Bonds and other debt instruments.
- Certain real estate subdivided for sale that may be considered a capital asset.
- Gain on the sale of depreciable property to a more than 50% owned entity, or to a trust in which the partnership is a beneficiary, is treated as ordinary gain.

- Gain on disposition of stock in an Interest-Charge Domestic International Sales Corporation or a Foreign Sales Corporation.
- Gain or loss on options to buy or sell, including closing transactions.
- Transfer of property to a foreign corporation as paid-in surplus or as a contribution to capital, or to a foreign trust or partnership.
- Transfer of property to a partnership that would be treated as an investment company if the partnership were incorporated.
- Transfer of property to a political organization if the fair market value of the property exceeds the partnership's adjusted basis in such property.
- Any loss on the disposition of converted wetland or highly erodible cropland that is first used for farming after March 1, 1986, is reported as a long-term capital loss on Schedule D, but any gain on such a disposition is reported as ordinary income on Form 4797. See section 1257 for details.
- Conversion of general partnership interest into a limited partnership interest in the same partnership. See Rev. Rul. 84-52, 1984-1 C.B. 157.
- Transfer of partnership assets and liabilities to a newly formed corporation in exchange for all of its stock. See Rev. Rul. 84-111, 1984-2 C.B. 88.
- Contribution of limited partnership interests in exchange for limited partnership interests in another partnership. See Rev. Rul. 84-115, 1984-2 C.B. 118.
- Disposition of foreign investment in U.S. real property interest. See section 897.
- **Loss From a Sale or Exchange Between the Partnership and a Related Person.**—Except for distributions in complete liquidation of a corporation, no loss is allowed from the sale or exchange of property between the partnership and certain related persons. See sections 267 and 707(b) for details.
- **Loss From Securities That Are Capital Assets That Become Worthless During the Year.**—Treat the loss as a loss from the sale or exchange of a capital asset on the last day of the tax year.
- **Collapsible Corporations.**—Gain from the sale or exchange of stock in a collapsible corporation is not a capital gain. See section 341.
- **Loss From a Wash Sale.**—The partnership cannot deduct a loss from a wash sale of stock or securities (including contracts or options to acquire or sell stock or securities) unless the partnership is a dealer in stock or securities and the loss was sustained in a transaction made in the ordinary course of the partnership's trade or business. A wash sale occurs if the partnership acquires (by purchase or exchange), or has a contract or option to acquire, substantially identical stock or securities within 30 days before or after the date of the sale or exchange. See section 1091 for more information.
- **Gain From Installment Sales.**—If the partnership sold property (other than publicly traded stock or securities) at a gain, and is to receive any payment in a tax year after the year of sale, it must use the installment method and **Form 6252**, Installment Sale Income, unless it elects not to use the installment method. The partnership should also use Form 6252 if it received a payment this year from a sale made in an earlier year on the installment method.

If the partnership wants to elect out of the installment method for installment gain that **is not** specially allocated among the partners, it must do the following on a timely filed return (including extensions):

(1) Report the full amount of the sale on Schedule D.

(2) If the partnership received a note or other obligation and is reporting it at less than face value (including all contingent obligations), state that fact in the margin, enter the face amount of the note or other obligation, and give the percentage of valuation.

If the partnership wants to elect out of the installment method for installment gain that **is** specially allocated among the partners, it must do the following on a timely filed return (including extensions):

(1) For a **short-term capital gain,** report the full amount of the sale on Schedule K, line 4d or 7.

For a **long-term capital gain,** report the full amount of the sale on Schedule K, line 4e or 7.

(2) Enter each partner's share of the full amount of the sale on Schedule K-1, line 4d, 4e, or 7, whichever applies.

(3) If the partnership received a note or other obligation and is reporting it at less than face value (including all contingent obligations), attach a statement to Form 1065 that states that fact. Also show on the statement the face amount of the note or other obligation and give the percentage of valuation. Label the statement "Specially Allocated Capital Gains from Electing Out of the Installment Method."

If the partnership received more than one note or obligation, list the amounts separately.

- **Gains and Losses on Section 1256 Contracts and Straddles.**—For information on how to report gains and losses from section 1256 contracts and straddles, see **Form 6781,** Gains and Losses From Section 1256 Contracts and Straddles.

If there are limited partners, see section 1256(e)(4) for the limitation on losses from hedging transactions.

Specific Instructions

Column (c). Date Sold.—Be sure to use the trade date, and not the settlement date, as the date sold for year-end stock sales made on an established market.

Column (d). Sales Price.—Enter in this column either the gross sales price or the net sales price from the sale. On sales of stocks and bonds, report the gross amount as reported to the partnership by the partnership's broker on Form 1099-B or similar statement. However, if the broker advised the partnership that gross proceeds (gross sales price) less commissions and option premiums were reported to IRS, enter that net amount in column (d).

Column (e). Cost or Other Basis.—In general, the cost or other basis is the cost of the property plus purchase commissions and improvements and minus depreciation, amortization, and depletion. If the partnership got the property in a tax-free exchange, involuntary conversion, or wash sale of stock, it may not be able to use the actual cash cost as the basis. If the partnership does not use cash cost, attach an explanation of the basis.

When selling stock, adjust the basis by subtracting all the stock-related nontaxable distributions received before the sale. This includes nontaxable distributions from utility company stock and mutual funds. Also adjust the basis for any stock splits or stock dividends.

If a charitable contribution deduction is passed through to a partner because of a sale of property to a charitable organization, the adjusted basis for determining gain from the sale is an amount which has the same ratio to the adjusted basis as the amount realized has to the fair market value.

See section 852(f) for the treatment of certain load charges incurred in acquiring stock in a mutual fund with a reinvestment right.

If the gross sales price is reported in column (d), increase the cost or other basis by any expense of sale such as broker's fee, commission, or option premium before making an entry in column (e).

For more information, see **Publication 551,** Basis of Assets.

Lines 3 and 7. Capital Gains and Losses From Other Partnerships and Fiduciaries.—See the Schedule K-1 or other information supplied to you by the other partnership or fiduciary.

Line 8. Capital Gain Distributions.—On line 8, report as capital gain distributions: **(a)** capital gain dividends; and **(b)** the partnership's share of the undistributed capital gain from a regulated investment company. (Also see the instructions for Schedule K-1, line 21, item **a,** in the Instructions for Form 1065.)

SCHEDULE D (Form 1065)

Department of the Treasury
Internal Revenue Service

Capital Gains and Losses

► Attach to Form 1065.

OMB No. 1545-0099

1990

Name of partnership

Employer identification number

Part I Short-Term Capital Gains and Losses—Assets held one year or less

(a) Description of property (Example, 100 shares 7% preferred of "Z" Co.)	(b) Date acquired (month, day, year)	(c) Date sold (month, day, year)	(d) Sales price (see instructions)	(e) Cost or other basis (see instructions)	(f) Gain (loss) ((d) minus (e))
1					

2 Short-term capital gain from installment sales from Form 6252, line 22 or 30 2

3 Partnership's share of net short-term capital gain (loss), including specially allocated short-term capital gains (losses), from other partnerships and from fiduciaries 3

4 Net short-term capital gain (loss)—Combine lines 1 through 3. Enter here and on Form 1065, Schedule K, line 4d or 7 4

Part II Long-Term Capital Gains and Losses—Assets held more than one year

5					

6 Long-term capital gain from installment sales from Form 6252, line 22 or 30 6

7 Partnership's share of net long-term capital gain (loss), including specially allocated long-term capital gains (losses), from other partnerships and from fiduciaries 7

8 Capital gain distributions 8

9 Net long-term capital gain (loss)—Combine lines 5 through 8. Enter here and on Form 1065, Schedule K, line 4e or 7 9

General Instructions

(Section references are to the Internal Revenue Code.)

Purpose of Schedule.—Use Schedule D (Form 1065) to report sales or exchanges of capital assets, except capital gains (losses) that are specially allocated to any partners.

Specially allocated capital gains (losses) received by the partnership as a partner in other partnerships and from fiduciaries are to be entered on Schedule D, line 3 or 7, whichever applies. Capital gains (losses) of the partnership that are specially allocated to partners should be entered directly on line 4d, 4e, or 7 of Schedules K and K-1, whichever applies. Do not include these amounts on Schedule D. See **How Income Is Shared Among Partners** in the General Instructions for Schedules K and K-1 of the Instructions for Form 1065 for more information.

General Information.—To report sales or exchanges of property other than capital assets, including the sale or exchange of property used in a trade or business and involuntary conversions (other than casualties and thefts), see **Form 4797,** Sales of Business Property, and related instructions. If property is involuntarily converted because of a casualty or theft, use **Form 4684,** Casualties and Thefts.

For amounts received from an installment sale, the holding period rule in effect in the year of sale will determine the treatment of the amounts received as long-term or short-term capital gain.

Report every sale or exchange of property in detail, even though there is no gain or loss.

For more information, see **Publication 544,** Sales and Other Dispositions of Assets.

Note: *For information on liquidations of corporations, see* ***Publication 542****, Tax Information on Corporations, and Publication 544.*

What Are Capital Assets?—Each item of property the partnership held (whether or not connected with its trade or business) is a capital asset **except:**

1. Assets that can be inventoried or property held mainly for sale to customers.
2. Depreciable or real property used in the trade or business.
3. Certain copyrights; literary, musical, or artistic compositions; letters or memorandums; or similar property.
4. Accounts or notes receivable acquired in the ordinary course of trade or business for services rendered or from the sale of property described in 1 above.
5. U.S. Government publications, including the Congressional Record, that the partnership received from the government, other than by purchase at the normal sales price, or that the partnership got from another taxpayer who had received it in a similar way, if the partnership's basis is determined by reference to the previous owner.

Exchange of "Like-Kind" Property.—Use **Form 8824,** Like-Kind Exchanges, to report an exchange of like-kind property. Also report the exchange on Schedule D or on Form 4797, whichever applies. Complete and attach a Form 8824 to the partnership's return for each exchange. The partnership must report an exchange of business or investment property for "like-kind" property even if no gain or loss on the property is recognized.

If Schedule D is used to report a like-kind exchange, write **"From Form 8824"** on the appropriate line (line 1 or 5, column (a)). Skip columns (b) through (e) and enter the gain or loss, if any, from Form 8824 in column (f). Write in the top margin of Schedule D **"Like-Kind Exchange"** or, if an exchange involved a related party, write **"Related Party Like-Kind Exchange."** See Form 8824 and its instructions for details.

Items for Special Treatment and Special Cases.—The following items may require special treatment.

- Transactions by a securities dealer.
- Bonds and other debt instruments.
- Certain real estate subdivided for sale that may be considered a capital asset.
- Gain on the sale of depreciable property to a more than 50% owned entity, or to a trust in which the partnership is a beneficiary, is treated as ordinary gain.

- Gain on disposition of stock in an Interest-Charge Domestic International Sales Corporation or a Foreign Sales Corporation.
- Gain or loss on options to buy or sell, including closing transactions.
- Transfer of property to a foreign corporation as paid-in surplus or as a contribution to capital, or to a foreign trust or partnership.
- Transfer of property to a partnership that would be treated as an investment company if the partnership were incorporated.
- Transfer of property to a political organization if the fair market value of the property exceeds the partnership's adjusted basis in such property.
- Any loss on the disposition of converted wetland or highly erodible cropland that is first used for farming after March 1, 1986, is reported as a long-term capital loss on Schedule D, but any gain on such a disposition is reported as ordinary income on Form 4797. See section 1257 for details.
- Conversion of general partnership interest into a limited partnership interest in the same partnership. See Rev. Rul. 84-52, 1984-1 C.B. 157.
- Transfer of partnership assets and liabilities to a newly formed corporation in exchange for all of its stock. See Rev. Rul. 84-111, 1984-2 C.B. 88.
- Contribution of limited partnership interests in exchange for limited partnership interests in another partnership. See Rev. Rul. 84-115, 1984-2 C.B. 118.
- Disposition of foreign investment in U.S. real property interest. See section 897.
- **Loss From a Sale or Exchange Between the Partnership and a Related Person.**—Except for distributions in complete liquidation of a corporation, no loss is allowed from the sale or exchange of property between the partnership and certain related persons. See sections 267 and 707(b) for details.
- **Loss From Securities That Are Capital Assets That Become Worthless During the Year.**—Treat the loss as a loss from the sale or exchange of a capital asset on the last day of the tax year.
- **Collapsible Corporations.**—Gain from the sale or exchange of stock in a collapsible corporation is not a capital gain. See section 341.
- **Loss From a Wash Sale.**—The partnership cannot deduct a loss from a wash sale of stock or securities (including contracts or options to acquire or sell stock or securities) unless the partnership is a dealer in stock or securities and the loss was sustained in a transaction made in the ordinary course of the partnership's trade or business. A wash sale occurs if the partnership acquires (by purchase or exchange), or has a contract or option to acquire, substantially identical stock or securities within 30 days before or after the date of the sale or exchange. See section 1091 for more information.
- **Gain From Installment Sales.**—If the partnership sold property (other than publicly traded stock or securities) at a gain, and is to receive any payment in a tax year after the year of sale, it must use the installment method and **Form 6252**, Installment Sale Income, unless it elects not to use the installment method. The partnership should also use Form 6252 if it received a payment this year from a sale made in an earlier year on the installment method.

If the partnership wants to elect out of the installment method for installment gain that **is not** specially allocated among the partners, it must do the following on a timely filed return (including extensions):

(1) Report the full amount of the sale on Schedule D.

(2) If the partnership received a note or other obligation and is reporting it at less than face value (including all contingent obligations), state that fact in the margin, enter the face amount of the note or other obligation, and give the percentage of valuation.

If the partnership wants to elect out of the installment method for installment gain that **is** specially allocated among the partners, it must do the following on a timely filed return (including extensions):

(1) For a **short-term capital gain,** report the full amount of the sale on Schedule K, line 4d or 7.

For a **long-term capital gain,** report the full amount of the sale on Schedule K, line 4e or 7.

(2) Enter each partner's share of the full amount of the sale on Schedule K-1, line 4d, 4e, or 7, whichever applies.

(3) If the partnership received a note or other obligation and is reporting it at less than face value (including all contingent obligations), attach a statement to Form 1065 that states that fact. Also show on the statement the face amount of the note or other obligation and give the percentage of valuation. Label the statement "Specially Allocated Capital Gains from Electing Out of the Installment Method."

If the partnership received more than one note or obligation, list the amounts separately.

- **Gains and Losses on Section 1256 Contracts and Straddles.**—For information on how to report gains and losses from section 1256 contracts and straddles, see **Form 6781,** Gains and Losses From Section 1256 Contracts and Straddles.

If there are limited partners, see section 1256(e)(4) for the limitation on losses from hedging transactions.

Specific Instructions

Column (c). Date Sold.—Be sure to use the trade date, and not the settlement date, as the date sold for year-end stock sales made on an established market.

Column (d). Sales Price.—Enter in this column either the gross sales price or the net sales price from the sale. On sales of stocks and bonds, report the gross amount as reported to the partnership by the partnership's broker on Form 1099-B or similar statement. However, if the broker advised the partnership that gross proceeds (gross sales price) less commissions and option premiums were reported to IRS, enter that net amount in column (d).

Column (e). Cost or Other Basis.—In general, the cost or other basis is the cost of the property plus purchase commissions and improvements and minus depreciation, amortization, and depletion. If the partnership got the property in a tax-free exchange, involuntary conversion, or wash sale of stock, it may not be able to use the actual cash cost as the basis. If the partnership does not use cash cost, attach an explanation of the basis.

When selling stock, adjust the basis by subtracting all the stock-related nontaxable distributions received before the sale. This includes nontaxable distributions from utility company stock and mutual funds. Also adjust the basis for any stock splits or stock dividends.

If a charitable contribution deduction is passed through to a partner because of a sale of property to a charitable organization, the adjusted basis for determining gain from the sale is an amount which has the same ratio to the adjusted basis as the amount realized has to the fair market value.

See section 852(f) for the treatment of certain load charges incurred in acquiring stock in a mutual fund with a reinvestment right.

If the gross sales price is reported in column (d), increase the cost or other basis by any expense of sale such as broker's fee, commission, or option premium before making an entry in column (e).

For more information, see **Publication 551,** Basis of Assets.

Lines 3 and 7. Capital Gains and Losses From Other Partnerships and Fiduciaries.—See the Schedule K-1 or other information supplied to you by the other partnership or fiduciary.

Line 8. Capital Gain Distributions.—On line 8, report as capital gain distributions: **(a)** capital gain dividends; and **(b)** the partnership's share of the undistributed capital gain from a regulated investment company. (Also see the instructions for Schedule K-1, line 21, item **a,** in the Instructions for Form 1065.)

SCHEDULE K-1 (Form 1065)
Department of the Treasury
Internal Revenue Service

Partner's Share of Income, Credits, Deductions, Etc.

▶ See separate instructions.

For calendar year 1990 or tax year beginning , 1990, and ending , 19

OMB No. 1545-0099

1990

Partner's identifying number ▶	Partnership's identifying number ▶
Partner's name, address, and ZIP code	Partnership's name, address, and ZIP code

A Is this partner a general partner? . . . ☐ Yes ☐ No

B Partner's share of liabilities (see instructions):
Nonrecourse . . . . . $ _____
Qualified nonrecourse financing . . $ _____
Other . . . . . $ _____

C What type of entity is this partner? ▶ _____

D Is this partner a ☐ domestic or a ☐ foreign partner?

E Enter partner's percentage of:

	(i) Before change or termination	(ii) End of year
Profit sharing	_____ %	_____ %
Loss sharing	_____ %	_____ %
Ownership of capital	_____ %	_____ %

F IRS Center where partnership filed return ▶ _____

G(1) Tax shelter registration number ▶ _____

(2) Type of tax shelter ▶ _____

H(1) Did the partner's ownership interest in the partnership change after Oct. 22, 1986? . . . . . ☐ Yes ☐ No
If "Yes," attach statement. (See Form 1065 Instructions.)

(2) Did the partnership start or acquire a new activity after Oct. 22, 1986? . . . . . ☐ Yes ☐ No
If "Yes," attach statement. (See Form 1065 Instructions.)

I Check here if this partnership is a publicly traded partnership as defined in section 469(k)(2) . . . . . ☐

J Check applicable boxes: (1) ☐ Final K-1 (2) ☐ Amended K-1

K Reconciliation of partner's capital account:

(a) Capital account at beginning of year	(b) Capital contributed during year	(c) Income (loss) from lines 1, 2, 3, and 4 below	(d) Income not included in column (c), plus nontaxable income	(e) Losses not included in column (c), plus unallowable deductions	(f) Withdrawals and distributions	(g) Capital account at end of year (combine columns (a) through (f))
				( )	( )	

	(a) Distributive share item		(b) Amount	(c) 1040 filers enter the amount in column (b) on:
Income (Loss)	1	Ordinary income (loss) from trade or business activities	1	(See Partner's Instructions for Schedule K-1 (Form 1065))
	2	Net income (loss) from rental real estate activities	2	
	3	Net income (loss) from other rental activities	3	
	4	Portfolio income (loss):		
	a	Interest	4a	Sch. B, Part I, line 1
	b	Dividends	4b	Sch. B, Part II, line 5
	c	Royalties	4c	Sch. E, Part I, line 4
	d	Net short-term capital gain (loss)	4d	Sch. D, line 5, col. (f) or (g)
	e	Net long-term capital gain (loss)	4e	Sch. D, line 12, col. (f) or (g)
	f	Other portfolio income (loss) *(attach schedule)*	4f	(Enter on applicable line of your return)
	5	Guaranteed payments to partner	5	(See Partner's Instructions for Schedule K-1 (Form 1065))
	6	Net gain (loss) under section 1231 (other than due to casualty or theft)	6	
	7	Other income (loss) *(attach schedule)*	7	(Enter on applicable line of your return)
Deductions	8	Charitable contributions	8	Sch. A, line 14 or 15
	9	Section 179 expense deduction *(attach schedule)*	9	(See Partner's Instructions for Schedule K-1 (Form 1065))
	10	Deductions related to portfolio income *(attach schedule)*	10	
	11	Other deductions *(attach schedule)*	11	
Investment Interest	12a	Interest expense on investment debts	12a	Form 4952, line 1
	b	(1) Investment income included on lines 4a through 4f above	b(1)	(See Partner's Instructions for Schedule K-1 (Form 1065))
		(2) Investment expenses included on line 10 above	b(2)	
Credits	13a	Credit for income tax withheld	13a	(See Partner's Instructions for Schedule K-1 (Form 1065))
	b	Low-income housing credit:		
		(1) From section 42(j)(5) partnerships for property placed in service before 1990	b(1)	Form 8586, line 5
		(2) Other than on line 13b(1) for property placed in service before 1990	b(2)	
		(3) From section 42(j)(5) partnerships for property placed in service after 1989	b(3)	
		(4) Other than on line 13b(3) for property placed in service after 1989	b(4)	
	c	Qualified rehabilitation expenditures related to rental real estate activities (see instructions)	13c	(See Partner's Instructions for Schedule K-1 (Form 1065))
	d	Credits (other than credits shown on lines 13b and 13c) related to rental real estate activities (see instructions)	13d	
	e	Credits related to other rental activities (see instructions)	13e	
	14	Other credits (see instructions)	14	

		(a) Distributive share item		(b) Amount	(c) 1040 filers enter the amount in column (b) on:
Self-employment	15a	Net earnings (loss) from self-employment	15a		Sch. SE, Section A or B
	b	Gross farming or fishing income	15b		(See Partner's Instructions for Schedule K-1 (Form 1065))
	c	Gross nonfarm income	15c		
Adjustments and Tax Preference Items	16a	Accelerated depreciation of real property placed in service before 1987	16a		(See Partner's Instructions for Schedule K-1 (Form 1065) and Form 6251 Instructions)
	b	Accelerated depreciation of leased personal property placed in service before 1987	16b		
	c	Depreciation adjustment on property placed in service after 1986	16c		
	d	Depletion (other than oil and gas)	16d		
	e	(1) Gross income from oil, gas, and geothermal properties	e(1)		
		(2) Deductions allocable to oil, gas, and geothermal properties	e(2)		
	f	Other adjustments and tax preference items *(attach schedule)*	16f		
Foreign Taxes	17a	Type of income ▶			Form 1116, Check boxes
	b	Name of foreign country or U.S. possession ▶			Form 1116, Part I
	c	Total gross income from sources outside the U.S. *(attach schedule)*	17c		Form 1116, Part I
	d	Total applicable deductions and losses *(attach schedule)*	17d		Form 1116, Part I
	e	Total foreign taxes (check one): ▶ ☐ Paid ☐ Accrued	17e		Form 1116, Part II
	f	Reduction in taxes available for credit *(attach schedule)*	17f		Form 1116, Part III
	g	Other foreign tax information *(attach schedule)*	17g		See Form 1116 Instructions
Other	18a	Total expenditures to which a section 59(e) election may apply	18a		(See Partner's Instructions for Schedule K-1 (Form 1065))
	b	Type of expenditures ▶			
Recapture of Tax Credits	19	Recapture of low-income housing credit:			
	a	From section 42(j)(5) partnerships	19a		Form 8611, line 8
	b	Other than on line 19a	19b		

20 Investment credit properties:	A	B	C	
a Description of property (State whether recovery or nonrecovery property. If recovery property, state whether regular percentage method or section 48(q) election used.)				Form 4255, top
b Date placed in service				Form 4255, line 2
c Cost or other basis				Form 4255, line 3
d Class of recovery property or original estimated useful life				Form 4255, line 4
e Date item ceased to be investment credit property				Form 4255, line 8

Supplemental Information

21 Supplemental information required to be reported separately to each partner *(attach additional schedules if more space is needed)*:

SCHEDULE K-1 (Form 1065)
Department of the Treasury
Internal Revenue Service

Partner's Share of Income, Credits, Deductions, Etc.

▶ See separate instructions.

For calendar year 1990 or tax year beginning , 1990, and ending , 19

OMB No. 1545-0099

1990

Partner's identifying number ▶

Partner's name, address, and ZIP code

Partnership's identifying number ▶

Partnership's name, address, and ZIP code

A Is this partner a general partner? ☐ Yes ☐ No

B Partner's share of liabilities (see instructions):
- Nonrecourse . . . . . $
- Qualified nonrecourse financing . . $
- Other . . . . . $

C What type of entity is this partner? ▶

D Is this partner a ☐ domestic or a ☐ foreign partner?

E Enter partner's percentage of:

	(i) Before change or termination	(ii) End of year
Profit sharing	%	%
Loss sharing	%	%
Ownership of capital	%	%

F IRS Center where partnership filed return ▶

G(1) Tax shelter registration number ▶

(2) Type of tax shelter ▶

H(1) Did the partner's ownership interest in the partnership change after Oct. 22, 1986? ☐ Yes ☐ No
If "Yes," attach statement. (See Form 1065 Instructions.)

(2) Did the partnership start or acquire a new activity after Oct. 22, 1986? ☐ Yes ☐ No
If "Yes," attach statement. (See Form 1065 Instructions.)

I Check here if this partnership is a publicly traded partnership as defined in section 469(k)(2) ☐

J Check applicable boxes: (1) ☐ Final K-1 (2) ☐ Amended K-1

K Reconciliation of partner's capital account:

(a) Capital account at beginning of year	(b) Capital contributed during year	(c) Income (loss) from lines 1, 2, 3, and 4 below	(d) Income not included in column (c), plus nontaxable income	(e) Losses not included in column (c), plus unallowable deductions	(f) Withdrawals and distributions	(g) Capital account at end of year (combine columns (a) through (f))
				( )	( )	

		(a) Distributive share item		(b) Amount	(c) 1040 filers enter the amount in column (b) on:
Income (Loss)	1	Ordinary income (loss) from trade or business activities	1		See Partner's Instructions for Schedule K-1 (Form 1065)
	2	Net income (loss) from rental real estate activities	2		
	3	Net income (loss) from other rental activities	3		
	4	Portfolio income (loss):			
	a	Interest	4a		Sch. B, Part I, line 1
	b	Dividends	4b		Sch. B, Part II, line 5
	c	Royalties	4c		Sch. E, Part I, line 4
	d	Net short-term capital gain (loss)	4d		Sch. D, line 5, col. (f) or (g)
	e	Net long-term capital gain (loss)	4e		Sch. D, line 12, col. (f) or (g)
	f	Other portfolio income (loss) *(attach schedule)*	4f		(Enter on applicable line of your return)
	5	Guaranteed payments to partner	5		See Partner's Instructions for Schedule K-1 (Form 1065)
	6	Net gain (loss) under section 1231 (other than due to casualty or theft)	6		
	7	Other income (loss) *(attach schedule)*	7		(Enter on applicable line of your return)
Deductions	8	Charitable contributions	8		Sch. A, line 14 or 15
	9	Section 179 expense deduction *(attach schedule)*	9		See Partner's Instructions for Schedule K-1 (Form 1065)
	10	Deductions related to portfolio income *(attach schedule)*	10		
	11	Other deductions *(attach schedule)*	11		
Investment Interest	12a	Interest expense on investment debts	12a		Form 4952, line 1
	b	(1) Investment income included on lines 4a through 4f above	b(1)		See Partner's Instructions for Schedule K-1 (Form 1065)
		(2) Investment expenses included on line 10 above	b(2)		
Credits	13a	Credit for income tax withheld	13a		See Partner's Instructions for Schedule K-1 (Form 1065)
	b	Low-income housing credit:			
		(1) From section 42(j)(5) partnerships for property placed in service before 1990	b(1)		Form 8586, line 5
		(2) Other than on line 13b(1) for property placed in service before 1990	b(2)		
		(3) From section 42(j)(5) partnerships for property placed in service after 1989	b(3)		
		(4) Other than on line 13b(3) for property placed in service after 1989	b(4)		
	c	Qualified rehabilitation expenditures related to rental real estate activities (see instructions)	13c		See Partner's Instructions for Schedule K-1 (Form 1065)
	d	Credits (other than credits shown on lines 13b and 13c) related to rental real estate activities (see instructions)	13d		
	e	Credits related to other rental activities (see instructions)	13e		
	14	Other credits (see instructions)	14		

	(a) Distributive share item		(b) Amount	(c) 1040 filers enter the amount in column (b) on:
Self-employment	15a Net earnings (loss) from self-employment	15a		Sch. SE, Section A or B
	b Gross farming or fishing income	15b		(See Partner's Instructions for Schedule K-1 (Form 1065))
	c Gross nonfarm income	15c		
Adjustments and Tax Preference Items	16a Accelerated depreciation of real property placed in service before 1987	16a		(See Partner's Instructions for Schedule K-1 (Form 1065) and Form 6251 Instructions)
	b Accelerated depreciation of leased personal property placed in service before 1987	16b		
	c Depreciation adjustment on property placed in service after 1986	16c		
	d Depletion (other than oil and gas)	16d		
	e (1) Gross income from oil, gas, and geothermal properties	e(1)		
	(2) Deductions allocable to oil, gas, and geothermal properties	e(2)		
	f Other adjustments and tax preference items *(attach schedule)*	16f		
Foreign Taxes	17a Type of income ►			Form 1116, Check boxes
	b Name of foreign country or U.S. possession ►			Form 1116, Part I
	c Total gross income from sources outside the U.S. *(attach schedule)*	17c		Form 1116, Part I
	d Total applicable deductions and losses *(attach schedule)*	17d		Form 1116, Part I
	e Total foreign taxes (check one): ► ☐ Paid ☐ Accrued	17e		Form 1116, Part II
	f Reduction in taxes available for credit *(attach schedule)*	17f		Form 1116, Part III
	g Other foreign tax information *(attach schedule)*	17g		See Form 1116 Instructions
Other	18a Total expenditures to which a section 59(e) election may apply	18a		(See Partner's Instructions for Schedule K-1 (Form 1065))
	b Type of expenditures ►			
Recapture of Tax Credits	19 Recapture of low-income housing credit:			
	a From section 42(j)(5) partnerships	19a		Form 8611, line 8
	b Other than on line 19a	19b		

20 Investment credit properties:	A	B	C	
a Description of property (State whether recovery or nonrecovery property. If recovery property, state whether regular percentage method or section 48(q) election used.)				Form 4255, top
b Date placed in service				Form 4255, line 2
c Cost or other basis				Form 4255, line 3
d Class of recovery property or original estimated useful life				Form 4255, line 4
e Date item ceased to be investment credit property				Form 4255, line 8

Supplemental Information

21 Supplemental information required to be reported separately to each partner *(attach additional schedules if more space is needed):*

1990

Department of the Treasury
Internal Revenue Service

Partner's Instructions for Schedule K-1 (Form 1065)

Partner's Share of Income, Credits, Deductions, Etc.

(For Partner's Use Only)

(Section references are to the Internal Revenue Code unless otherwise noted.)

Reminder

Four-year ratable spread of short-year income.—Many partnerships were required to change their tax year in 1987. As a result of this change, the affected partnerships issued two Schedule K-1s in 1987, one for the full tax year ending in 1987, and one for the short tax year ending in 1987. If you were a partner in such a partnership, your partnership should have identified the Schedule K-1 that it issued to you for its short year by checking the box in Item H on your Schedule K-1 for 1987. A partner in a partnership that had net income for the short year was given the option of reporting the partner's distributive share of short-year partnership income in full in 1987 or spreading it ratably over 4 years. If you chose to report your distributive share of the short-year partnership income over 4 years, be sure to report 25% of each partnership income and expense item on your 1990 income tax return. When you report each item on the applicable form or schedule, if an itemization by source is required, you should list it on a separate line, identify the partnership to which the income or expense relates, and identify the income or expense as a short-year amount by writing "PYA" beside it.

General Instructions

Purpose of Schedule K-1.—The partnership uses Schedule K-1 to report your share of the partnership's income, credits, deductions, etc. **Please keep it for your records. Do not file it with your tax return.** A copy has been filed with the IRS.

Although the partnership is not subject to income tax, you are liable for tax on your share of the partnership income, whether or not distributed, and you must include your share on your tax return if a return is required.

The amount of loss and deduction that you may claim on your tax return may be less than the amount reported on Schedule K-1. **It is the partner's responsibility to consider and apply any applicable limitations.** See **Limitations on Losses, Deductions, and Credits,** on page 2, for more information.

Where "(attach schedule)" appears beside a line item on Schedule K-1, it means you should see either the schedule that the partnership has attached for that line or the space below line 21 of Schedule K-1.

Where "(see instructions for Form 1065)" appears beside an item or line on Schedule K-1, it means the partnership should see the Instructions for Form 1065 before completing these lines. You may ignore this notation.

Inconsistent treatment of items.—Generally, you must report partnership items shown on your Schedule K-1 (and any attached schedules) the same way that the partnership treated the items on its return. This rule does not apply if your partnership is within the "small partnership exception" and does not elect to have the tax treatment of partnership items determined at the partnership level under section 6231(a)(1)(B)(ii).

If the treatment on your original or amended return is inconsistent with the partnership's treatment, or if the partnership was required to, but has not filed a return, you must file **Form 8082**, Notice of Inconsistent Treatment or Amended Return (Administrative Adjustment Request (AAR)), with your original or amended return to identify and explain any inconsistency (or to note that a partnership return has not been filed). See section 6222 for more information.

If you are required to file Form 8082 but fail to do so, you may be subject to the accuracy-related penalty under section 6662. This penalty is in addition to any tax that results from making your amount or treatment of the item consistent with that shown on the partnership's return. Any deficiency that results from making the amounts consistent may be assessed immediately.

Errors.—If you believe the partnership has made an error on your Schedule K-1, notify the partnership and ask for a corrected Schedule K-1. Do not change any items on your copy of Schedule K-1. Be sure that the partnership sends a copy of any corrected Schedule K-1 to the Internal Revenue Service. If you are a partner in a partnership that does not meet the small partnership exception and you report any partnership item on your return in a manner that differs from the way the partnership reported it, you must file Form 8082. See **Inconsistent treatment of items** above, for more information.

Sale or exchange of partnership interest.—Generally, if a partner sells or exchanges a partnership interest where unrealized receivables or substantially appreciated inventory items are involved, the partner must notify the partnership, in writing, within 30 days of the exchange. An exception to this rule is made in the case of sales or exchanges of publicly traded partnership interests for which a broker is required to file **Form 1099-B,** Proceeds From Broker and Barter Exchange Transactions. See **Form 8308,** Report of a Sale or Exchange of Certain Partnership Interests, for more information.

Nominee reporting.—Generally, any person who holds, directly or indirectly, an interest in a partnership as a nominee for another person is required to furnish a written statement to the partnership by the last day of the month following the end of the partnership's tax year that includes the name, address, and identifying number of the nominee and such other person, description of the partnership interest held as nominee for that person, and other information required under Temporary Regulations section 1.6031(c)-1T. In lieu of this statement, the nominee may furnish to the person on whose behalf the nominee holds the partnership interest a copy of Schedule K-1 and related information within 30 days of receiving it from the partnership. See section 6031(c) and Temporary Regulations section 1.6031(c)-1T for more information.

Note: *A nominee who fails to furnish when due all of the required information, or who furnishes incorrect information, is subject to a penalty of $50 with respect to each statement for which a failure occurs. The maximum penalty is $100,000 for all such failures during a calendar year. If the requirement to report correct information is intentionally disregarded, each $50 penalty is increased to $100 or, if greater, 10% of the aggregate amount of items required to be reported (and the $100,000 maximum does not apply). See sections 6722 and 6724 for more information.*

United States persons with interests in foreign partnerships.—If you are a U.S. person in a foreign partnership that does not file a partnership return, you may be required to furnish information necessary to determine your correct income (loss) from the partnership. See Regulations section 1.6031-1. Also, see section 6046A for other information you may be required to report.

International boycotts.—Every partnership that had operations in, or related to, a boycotting country, company, or a national of a country must file **Form 5713,** International Boycott Report.

If the partnership cooperated with an international boycott, it must give you a copy of its Form 5713. You must file your own Form 5713 to report the activities of the partnership and any other boycott operations that you may have. You may lose certain tax benefits if the partnership participated in, or cooperated with, an international boycott. See Form 5713 and the instructions for more information.

Definitions

General partner.—A general partner is a partner who is personally liable for partnership debts.

Limited partner.—A limited partner is a partner whose potential personal liability for partnership debts is limited to the amount of money or other property that the partner contributed or is required to contribute to the partnership.

Nonrecourse loans.—Nonrecourse loans are those liabilities of the partnership for which none of the partners has any personal liability.

Elections.—Generally, the partnership decides how to figure taxable income from its operations. However, some elections are made by you separately on your income tax return and not by the partnership. These elections are made under the following code sections:

- Section 108(b)(5) (regarding income from the discharge of indebtedness);
- Section 617 (regarding the deduction and recapture of certain mining exploration expenditures); and
- Section 901 (regarding the foreign tax credit).

Also, you may make an election under section 59(e) to deduct certain qualified expenditures ratably over the period of time specified in that section. For more information, see the instructions for lines 18a and 18b of Schedule K-1.

Additional information.—For more information on the treatment of partnership income, credits, deductions, etc., see **Pub. 541**, Tax Information on Partnerships; **Pub. 535**, Business Expenses; and **Pub. 556**, Examination of Returns, Appeal Rights, and Claims for Refund.

The above publications and other publications referenced throughout these instructions may be obtained at most IRS offices. To order publications and forms, call our toll-free number 1-800-TAX-FORM (829-3676).

Limitations on Losses, Deductions, and Credits

There are three separate potential limitations on the amount of partnership losses that you may deduct on your return. These limitations and the order in which they must be applied are as follows: the basis rules, the at-risk rules, and the passive loss rules. Each of these limitations is discussed separately below.

Note: *Other limitations may apply to specific deductions (for example, the section 179 expense deduction). These limitations on specific deductions generally apply before the basis, at-risk, and passive loss limitations.*

Basis Rules

Generally, you may **not** claim your share of a partnership loss (including a capital loss) to the extent that it is greater than the adjusted basis of your partnership interest at the end of the partnership's tax year.

You can compute the adjusted basis of your partnership interest by adding items which increase your basis and then subtracting items which decrease your basis.

Items which increase your basis are:

- Money and your adjusted basis in property contributed to the partnership.
- Your share of the partnership's income.
- Your share of the increase in the liabilities of the partnership (or your individual liabilities caused by your assumption of partnership liabilities).

Items which decrease your basis are:

- Money and the adjusted basis of property distributed to you.
- Your share of the partnership's losses.
- Your share of the decrease in the liabilities of the partnership (or your individual liabilities assumed by the partnership).

The above is not a complete list of items and factors which determine basis. See Pub. 541 for more information.

At-Risk Rules

Generally, if you have: **(1)** a loss or other deduction from an activity carried on as a trade or business or for the production of income by the partnership, and **(2)** amounts in the activity for which you are not at risk, you will have to complete **Form 6198**, At-Risk Limitations, to figure your allowable loss.

The at-risk rules generally limit the amount of loss (including loss on the disposition of assets) and other deductions (such as the section 179 expense deduction) that you can claim to the amount you could actually lose in the activity.

Generally, you are not at risk for amounts such as the following:

- Nonrecourse loans used to finance the activity, to acquire property used in the activity, or to acquire your interest in the activity, that are not secured by your own property (other than the property used in the activity). See **Item B,** on page 4, for the exception for qualified nonrecourse financing secured by real property.
- Cash, property, or borrowed amounts used in the activity (or contributed to the activity, or used to acquire your interest in the activity) that are protected against loss by a guarantee, stop-loss agreement, or other similar arrangement (excluding casualty insurance and insurance against tort liability).
- Amounts borrowed for use in the activity from a person who has an interest in the activity, other than as a creditor, or who is related, under section 465(b)(3), to a person (other than yourself) having such an interest.

To help you complete Form 6198, the partnership should specify on an attachment to Schedule K-1 your share of the total pre-1976 losses from a section 465(c)(1) activity for which there existed a corresponding amount of nonrecourse liability at the end of the year in which the losses occurred. In addition, you should get a separate statement of income, expenses, etc., for each activity from the partnership.

Passive Activity Limitations

In general.—Section 469 provides rules that limit the deduction of certain losses and credits. These rules apply to partners who:

- Are individuals, estates, trusts, closely held corporations, or personal service corporations, and
- Have a passive activity loss or credit for the tax year.

Passive activities include: **(1)** trade or business activities in which you do not materially participate, and **(2)** activities that meet the definition of rental activities under Temporary Regulations section 1.469-1T(e)(3). See the Instructions for Form 8582 (or Form 8810).

Passive activities do not include: **(1)** trade or business activities in which you materially participate; **(2)** working interests in oil or gas wells; **(3)** qualifying low-income housing activities; and **(4)** an activity of trading personal property for the account of owners of interests in the activity.

If the partnership is conducting more than one activity, it will give you a statement attached to your Schedule K-1 that identifies each activity (trade or business activity, rental real estate activity, rental activity other than rental real estate, etc.) and specifies the income (loss), deductions, and credits from each activity.

If you are an individual, an estate, or a trust, and you have a passive activity loss or credit, get **Form 8582,** Passive Activity Loss Limitations, to compute your allowable passive losses and **Form 8582-CR,** Passive Activity Credit Limitations, to compute your allowable passive credits. For a corporation, get **Form 8810,** Corporate Passive Activity Loss and Credit Limitations. See the instructions for those forms for more information.

Material Participation in Trade or Business Activities

You must determine whether you materially participated in each trade or business activity held through the partnership. **All determinations of material participation are made with respect to your participation during the tax year of the partnership.**

Material participation standards for partners who are individuals are listed below. Special rules apply to certain retired or disabled farmers and to the surviving spouses of farmers. See Temporary Regulations section 1.469-5T and the Instructions for Form 8582 for details.

Corporations should refer to the Instructions for Form 8810 for the material participation standards that apply to them.

Individuals (other than limited partners).—If you are an individual (either a general partner or a limited partner who owned a general partnership interest at all times during the tax year), you materially participate in an activity only if:

(1) You participated in the activity for more than 500 hours during the tax year;

(2) Your participation in the activity for the tax year constituted substantially all of the participation in the activity of all individuals (including individuals who are not owners of interests in the activity);
(3) You participated in the activity for more than 100 hours during the tax year, and your participation in the activity for the tax year was not less than the participation in the activity of any other individual (including individuals who are not owners of interests in the activity) for the tax year;
(4) The activity is a significant participation activity for the tax year, and you participated in all significant participation activities (including activities outside the partnership) during the year for more than 500 hours. A "significant participation activity" is any trade or business activity in which you participated for more than 100 hours during the year and in which you did not materially participate under any of the material participation tests (other than this test 4);
(5) You materially participated in the activity for any 5 tax years (whether or not consecutive) during the 10 tax years that immediately precede the tax year;
(6) The activity is a personal service activity and you materially participated in the activity for any 3 tax years (whether or not consecutive) preceding the tax year. A "personal service activity" is an activity involving the performance of personal services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, or any other trade or business in which capital is not a material income-producing factor; or
(7) Based on all of the facts and circumstances, you participated in the activity on a regular, continuous, and substantial basis during the tax year.

Limited partners.—If you are a limited partner, you do not materially participate in an activity unless you meet one of the tests in paragraphs (1), (5), or (6) above.

Work counted toward material participation.—Generally, any work that you or your spouse do in connection with an activity held through a partnership (where you own your partnership interest at the time the work is done) is counted toward material participation. However, work in connection with the activity is not counted toward material participation if:
(1) The work is not the sort of work that owners of the activity would usually do and one of the principal purposes of the work that you or your spouse do is to avoid the passive loss or credit limitations; or **(2)** you do the work in your capacity as an investor and you are not directly involved in the day-to-day operations of the activity. Examples of work done as an investor which would not count toward material participation include: **(a)** studying and reviewing financial statements or reports on operations of the activity; **(b)** preparing or compiling summaries or analyses of the finances or operations of the activity for your own use; and **(c)** monitoring the finances or operations of the activity in a non-managerial capacity.

Effect of determination.—If you determine that you materially participated in a trade or business activity held through the partnership, report the income (loss), deductions, and credits from that activity as indicated in either column (c) of Schedule K-1 or the instructions for each line.

If you determine that you did not materially participate in a trade or business activity held through the partnership or if you have income (loss), deductions, or credits from a rental activity held through the partnership, the amounts from that activity are passive. Report passive income (losses), deductions, and credits as follows:

If you have an overall gain (the excess of income over deductions and losses, including any prior year unallowed loss) from a passive activity, report the income, deductions, and losses from the activity as indicated on Schedule K-1 or in these instructions.

If you have an overall loss (the excess of deductions and losses, including any prior year unallowed loss, over income) or credits from a passive activity, you must report the income, deductions, losses, and credits from **all** passive activities following the Instructions for Form 8582, or Form 8582-CR (or Form 8810), to see if your deductions, losses, and credits are limited under the passive activity rules.

See the Instructions for Forms 8582 and 8582-CR (or Form 8810) for more information.

Publicly Traded Partnerships

The provisions of section 469 are applied separately for items (other than the low-income housing credit and the rehabilitation investment credit) from each publicly traded partnership (PTP). Thus, a net passive loss from a PTP may not be deducted from other passive income. Instead, a passive loss from a PTP is suspended and carried forward to be applied against passive income from the same PTP in later years. If the partner's entire interest in the PTP is completely disposed of, any unused losses are allowed in full in the year of disposition.

If you have an overall gain from a PTP, the net gain is nonpassive income. In addition, the nonpassive income is included in investment income for purposes of figuring your investment interest expense deduction under section 163(d).

See the Instructions for Form 8582 (or Form 8810) to determine how to report net income or net loss from passive activities held through a PTP.

Active Participation in a Rental Real Estate Activity

If you actively participated in a rental real estate activity, you may be able to deduct up to $25,000 of the loss from the activity from nonpassive income. This "special allowance" is an exception to the general rule disallowing losses in excess of income from passive activities. The exception is not available if you were married for the tax year, file a separate return for the year, and did not live apart from your spouse at all times during the year.

Only individuals and qualifying estates can actively participate in a rental real estate activity. Estates (other than qualifying estates), trusts, and corporations cannot actively participate. Limited partners cannot actively participate unless future regulations provide an exception.

You are not considered to actively participate in a rental real estate activity if at any time during the tax year your interest (including your spouse's interest) in the activity was less than 10% (by value) of all interests in the activity.

Active participation is a less stringent requirement than material participation. You may be treated as actively participating if you participated, for example, in making management decisions or arranging for others to provide services (such as repairs) in a significant and bona fide sense. Management decisions that can count as active participation include approving new tenants, deciding on rental terms, approving capital or repair expenditures, and other similar decisions.

An estate is treated as actively participating for tax years ending less than 2 years after the date of the decedent's death if the decedent would have satisfied the active participation requirements for the activity for the tax year the decedent died. Such an estate is a "qualifying estate."

The maximum special allowance that single individuals and married individuals filing a joint return for the tax year can qualify for is $25,000. The maximum is $12,500 in the case of married individuals who file separate returns for the tax year and who lived apart all times during the year. The maximum special allowance for which an estate can qualify is $25,000 reduced by the special allowance for which the surviving spouse qualifies. Any phase-in of the surviving spouse's allowance is disregarded in computing the estate's maximum allowance.

If your modified adjusted gross income is $100,000 or less ($50,000 or less in the case of married persons filing separately), your loss is deductible up to the amount of the maximum special allowance referred to in the preceding paragraph. If your modified adjusted gross income is more than $100,000 (more than $50,000 in the case of married persons filing separately), the special allowance is 50% of the difference between $150,000 ($75,000 in the case of married persons filing separately) and your modified adjusted gross income. When modified adjusted gross income is $150,000 or more ($75,000 or more in the case of married persons filing separately), there is no special allowance. Modified adjusted gross income is your adjusted gross income figured without taking into account any passive activity loss, any taxable social security or equivalent railroad retirement benefits, any deductible contributions to an IRA or certain other qualified retirement plans under section 219, the deduction allowed under section 164(f) for one-half of self-employment taxes, or the exclusion from income of interest from Series EE U.S. Savings Bonds used to pay higher education expenses.

Special Rules for Certain Other Activities

Special rules apply to certain other activities. If you have net income (loss), deductions, or credits from any activity to which special rules apply, the partnership will identify the activity and all amounts relating to it on Schedule K-1 or on an attachment to Schedule K-1.

If you have losses with respect to partnership interests acquired and activities commenced before October 23, 1986 (pre-enactment activities) or net income subject to recharacterization under Temporary Regulations section 1.469-2T(f), report such amounts in accordance with the Instructions for Form 8582 (or Form 8810).

If you have net income (loss), deductions, or credits from any of the following activities, such amounts are treated as nonpassive and you should report them as instructed in column (c) of Schedule K-1 or in these instructions: qualified low-income housing projects; working interests in oil and gas wells; or trading personal property for the account of owners of interests in the activity.

Specific Instructions

Item B.—Item B should show your share of the partnership's nonrecourse liabilities, partnership-level qualified nonrecourse financing, and other liabilities as of the end of the partnership's tax year. If you terminated your interest in the partnership during the tax year, Item B should show the share that existed immediately before the total disposition. A partner's "other liability" is any partnership liability for which a partner is personally liable.

Use the total of the three amounts for computing the adjusted basis of your partnership interest.

Generally, you may use only the amounts shown next to "Qualified nonrecourse financing" and "Other" to compute your amount at risk. Do not include any amounts that are not at risk if such amounts are included in either of these categories.

If your partnership is engaged in two or more different types of activities subject to the at-risk provisions, or a combination of at-risk activities and any other activity, the partnership should give you a statement showing your share of nonrecourse liabilities, partnership-level qualified nonrecourse financing, and other liabilities for each activity.

The at-risk rules also apply to real property, except for real property (other than mineral property) placed in service by the taxpayer before 1987. However, there is an exception for "qualified nonrecourse financing" that is secured by real property used in an activity of holding real property. You are considered at risk for qualified nonrecourse amounts.

Qualified nonrecourse financing generally includes financing for which no one is personally liable for repayment that is secured by real property and that is loaned or guaranteed by a Federal, state, or local government or borrowed from a "qualified" person. Qualified persons include any person actively and regularly engaged in the business of lending money, such as a bank or savings and loan association. Qualified persons generally do not include related parties (unless the nonrecourse financing is commercially reasonable and on substantially the same terms as loans involving unrelated persons), the seller of the property, or a person who receives a fee for the partnership's investment in the real property. See **Pub. 925,** Passive Activity and At-Risk Rules, for more information on qualified nonrecourse financing.

Both the partnership and you must meet the qualified nonrecourse rules on this debt before you can include the amount shown next to "Qualified nonrecourse financing" in your at-risk computation.

See **Limitations on Losses, Deductions, and Credits** on page 2 for more information on the at-risk limitations.

Items G(1) and G(2).—If the partnership is a registration-required tax shelter or has invested in a registration-required tax shelter, it should have completed Items G(1) and G(2). If you claim or report income, loss, deduction, or credit from a tax shelter, you are required to attach **Form 8271,** Investor Reporting of Tax Shelter Registration Number, to your tax return. If the partnership has invested in a tax shelter, it is required to give you a copy of its Form 8271 with your Schedule K-1. You should use the information on this Form 8271 to complete Part I of your Form 8271.

If the partnership itself is a registration-required tax shelter, use the information on Schedule K-1 (name of the partnership, partnership identifying number, tax shelter registration number, type of tax shelter) to complete Part I of Form 8271. The partnership will identify the type of tax shelter in the space provided in Item G(2).

Questions H(1) and H(2).—These questions are asked to enable partners, for whom the passive activity rules of section 469 are applicable, to apply the phase-in relief provisions of those rules. See the Instructions for Form 8582 (or Form 8810) for information on the phase-in relief provisions.

Before you can apply the phase-in relief provisions, you must first determine which partnership activities (if any) are passive activities to you. See the instructions under **Passive Activity Limitations** for information on how to make this determination.

If Questions H(1) and H(2) are checked "No," phase-in relief provisions apply to all passive activity amounts from this partnership.

Question H(1).—The phase-in relief provisions do not apply to passive activity losses and credits from interests in the partnership acquired after October 22, 1986, unless the partner had a contractual obligation on that date to purchase the interest.

If Question H(1) is checked "Yes," the partnership should have attached a statement to Schedule K-1, for each activity commenced by the partnership prior to October 23, 1986, identifying your share of income, loss, deduction, and credit attributable to a new or increased ownership interest in the partnership that you acquired after October 22, 1986.

Question H(2).—If Question H(2) is checked "Yes," the partnership should have attached a statement to your Schedule K-1 identifying your share of amounts from activities commenced by the partnership after October 22, 1986. If these amounts are passive activity losses or credits to you, the phase-in relief provisions will not apply to them.

Item I.—If the box in Item I is checked, you are a partner in a publicly traded partnership and must follow the rules discussed on page 3 under **Publicly Traded Partnerships.**

Lines 1 through 21

If you are an individual and the passive activity rules do not apply to the amounts shown on your Schedule K-1, take the amounts shown in column (b) and enter them on the lines on your tax return as indicated in column (c). If the passive activity rules do apply, report the amounts shown in column (b) as indicated in the Instructions for Form 8582.

If you are not an individual, report the amounts in column (b) as instructed on your tax return.

The line numbers in column (c) are references to forms in use for calendar year 1990. If you file your tax return on a calendar year basis, but your partnership files a return for a fiscal year ending in 1991, enter these amounts on the corresponding lines of the tax forms in use for 1991.

If you have losses, deductions, or credits from a prior year that were not deductible or usable because of certain limitations, such as the at-risk rules, they may be taken into account in determining your net income, loss, or credits for this year. However, do not combine the prior-year amounts with any amounts shown on this Schedule K-1 to get a net figure to report on any supporting schedules, statements, or forms attached to your return. Instead, report the amounts on the attached schedule, statement, or form on a year-by-year basis.

If you have amounts other than those shown on Schedule K-1 to report on Schedule E (Form 1040), enter each item on a separate line of Part II of Schedule E.

The amounts shown on lines 1 through 21 reflect your share of income, loss, credits, deductions, etc., from partnership business or rental operations without reference to limitations on losses or adjustments that may be required of you because of: **(1)** the adjusted basis of your partnership interest, **(2)** the amount for which you are at risk as determined under section 465, or **(3)** the passive activity limitations of section 469. For information on these provisions, see **Limitations on Losses, Deductions, and Credits,** beginning on page 2.

Income

Line 1. Ordinary income (loss) from trade or business activities.—The amount reported for line 1 is your share of the ordinary income (loss) from the trade or business activities of the partnership. Generally, where you report this amount on Form 1040 depends on whether or not the amount is from an activity which is a passive activity to you. If you are an individual partner filing your 1990 Form 1040, find your situation in the following guide and report your line 1 income (loss) as instructed, after applying the basis and at-risk limitations on losses:

(1) Report line 1 income (loss) from partnership trade or business activities in which you materially participated on Schedule E (Form 1040), Part II, column (i) or (k).

(2) Report line 1 income (loss) from partnership trade or business activities in which you did not materially participate as follows:

(a) If income is reported on line 1, report the income on Schedule E, Part II, column (h). If, in addition to this passive activity income, you have a passive activity loss from this partnership or from any other source, also report the line 1 income following the Instructions for Form 8582.

(b) If a loss is reported on line 1, report the loss following the Instructions for Form 8582, to determine how much of the loss can be reported on Schedule E, Part II, column (g).

Line 2. Net income (loss) from rental real estate activities.—Generally, the income (loss) reported on line 2 is a passive activity amount to all partners. There is an exception, however, for losses from a qualified low-income housing project. The loss limitations of section 469 do not apply to losses incurred by qualified investors in qualified low-income housing projects. The partnership will have attached a schedule for line 2 to identify any such amounts.

If you are filing a 1990 Form 1040, use the following instructions to determine where to enter a line 2 amount:

(1) If you have a loss (other than from a qualified low-income housing project) on line 2 and you meet **all** of the following conditions, enter the loss on Schedule E (Form 1040), Part II, column (g):

(a) You determined that you actively participated in the partnership rental real estate activities. (See **Active Participation in a Rental Real Estate Activity,** on page 3.)

(b) Rental real estate activities with active participation were your only passive activities.

(c) You have no prior year unallowed losses from these activities.

(d) Your total loss from the rental real estate activities was not more than $25,000 (not more than $12,500 if married filing separately and you lived apart from your spouse all year).

(e) If you are a married person filing separately, you lived apart from your spouse all year.

(f) You have no current or prior year unallowed credits from a passive activity.

(g) Your modified adjusted gross income was not more than $100,000 (not more than $50,000 if married filing separately and you lived apart from your spouse all year).

(h) Your interest in the rental real estate activity is **not** held as a limited partner.

(2) If you have a loss on line 2 (other than from a qualified low-income housing project), and **you do not meet** all of the conditions in **(1)** above, report the loss following the Instructions for Form 8582 to determine how much of the loss can be reported on Schedule E (Form 1040), Part II, column (g).

(3) If you are a qualified investor reporting a qualified low-income housing project loss, report the loss on Schedule E, Part II, column (i).

(4) If you have income on line 2, enter the income on Schedule E, Part II, column (h). If, in addition to this passive activity income, you have a passive activity loss from this partnership or from any other source, also report the line 2 income following the Instructions for Form 8582.

Line 3. Net income (loss) from other rental activities.—The amount on line 3 is a passive activity amount for all partners.

(1) If line 3 is a loss, report the loss following the Instructions for Form 8582.

(2) If income is reported on line 3, report the income on Schedule E (Form 1040), Part II, column (h). If, in addition to this passive activity income, you have a passive activity loss from this partnership or from any other source, also report the line 3 income following the Instructions for Form 8582.

Line 4. Portfolio income (loss).—Income or loss referred to as "portfolio" income or loss in these instructions is not part of a passive activity subject to the rules of section 469. Portfolio income includes interest, dividend, annuity, and royalty income, not derived in the ordinary course of a trade or business, and gain or loss on the sale of property that produces those types of income or is held for investment. Column (c) of Schedule K-1 tells individual partners where to report this income on Form 1040.

The partnership uses line 4f to report portfolio income other than interest, dividend, royalty, and capital gain (loss) income. It will attach a statement to tell you what kind of portfolio income is reported on line 4f. An example of portfolio income that could be reported on line 4f is income from a real estate mortgage investment conduit (REMIC) in which the partnership is a residual interest holder.

If the partnership has a residual interest in a REMIC, it will report on the statement your share of REMIC taxable income (net loss) which you report on Schedule E (Form 1040), Part IV, column (d). The statement will also report your share of any "excess inclusion" which you report on Schedule E, Part IV, column (c), and your share of section 212 expenses which you report on Schedule E, Part IV, column (e). If you itemize your deductions on Schedule A (Form 1040), you may also deduct these section 212 expenses as a miscellaneous deduction subject to the 2% adjusted gross income floor on Schedule A, line 21.

Line 5. Guaranteed payments to partners.— Generally, amounts on this line are not part of a passive activity and should be reported on Schedule E (Form 1040), Part II, column (k). For example, guaranteed payments for personal services paid to any partner are not passive activity income.

Line 6. Net gain (loss) under section 1231 (other than due to casualty or theft).—If the amount on line 6 relates to a rental activity, the section 1231 gain (loss) is a passive activity amount. Likewise, if the amount relates to a trade or business activity and you did not materially participate in the trade or business activity, the section 1231 gain (loss) is a passive activity amount.

- If the amount is not a passive activity amount to you, report it on line 2, column (g) or (h), whichever is applicable, of **Form 4797,** Sales of Business Property. You do not have to complete the information called for in columns (b) through (f). Write "From Schedule K-1 (Form 1065)" across these columns.
- If gain is reported on line 6 and it is a passive activity amount to you, report the gain on line 2, column (h), of Form 4797 and be sure to see **Passive Loss Limitations** in the Instructions for Form 4797.
- If a loss is reported on line 6 and it is a passive activity amount to you, see **Passive Loss Limitations** in the Instructions for Form 4797. You will need to report the loss following the Instructions for Form 8582 to determine how much of the loss is allowed on Form 4797.

Line 7. Other income (loss).—Amounts on this line are other items of income, gain, or loss not included on lines 1 through 6. The partnership should give you a description and the amount of your share for each of these items.

Report loss items which are passive activity amounts to you following the Instructions for Form 8582.

Report income or gain items which are passive activity amounts to you as instructed below. If, in addition to this passive activity income or gain, you have passive activity losses, deductions, or credits from any source, also report the passive activity income or gain following the Instructions for Form 8582.

The instructions given below tell you where to report line 7 items if such items are not passive activity amounts.

Line 7 items may include the following:

- Partnership gains from the disposition of farm recapture property (see Form 4797) and other items to which section 1252 applies.
- Recoveries of tax benefit items (section 111). Report such amounts on the "Other income" line of Form 1040.
- Gambling gains and losses (section 165(d)).
- Any income, gain, or loss to the partnership under section 751(b). Report this amount on Form 4797, line 10.
- Specially allocated ordinary gain (loss). Report this amount on Form 4797, line 10.
- Net gain (loss) from involuntary conversions due to casualty or theft. The partnership will give you a schedule that shows the amounts to be entered on **Form 4684**, Casualties and Thefts, Section B, Part II, line 16, columns (b)(i), (b)(ii), and (c).
- Net short-term capital gain or loss and net long-term capital gain or loss from Schedule D (Form 1065) that is **not** portfolio income (e.g., gain or loss from the disposition of nondepreciable personal property used in a trade or business activity of the partnership). Report a net short-term capital gain or loss on Schedule D (Form 1040), line 5, column (f) or (g), and a net long-term capital gain or loss on Schedule D (Form 1040), line 12, column (f) or (g).

Deductions

Line 8. Charitable contributions.—The partnership will give you a schedule that shows which contributions were subject to the 50%, 30%, and 20% limitations. For further information, see the Form 1040 Instructions.

If contributions of property other than cash are made and if the claimed deduction for one item or group of similar items of property exceeds $5,000, the partnership is required to give you a copy of **Form 8283,** Noncash Charitable Contributions, to attach to your tax return. Do not deduct the amount shown on this form. Instead, deduct the amount shown on line 8 of your Schedule K-1 (Form 1065).

If the partnership provides you with information that the contribution was property other than cash and does not give you a Form 8283, see the Instructions for Form 8283 for filing requirements. A Form 8283 does not need to be filed unless the total claimed deduction for all contributed items of property exceeds $500.

Charitable contribution deductions are not taken into account in figuring your passive activity loss for the year. Do not enter them on Form 8582.

Line 9. Section 179 expense deduction.—Use this amount and other information provided by the partnership, along with the total cost of section 179 property placed in service during the year from other sources, to complete Part I of **Form 4562,** Depreciation and Amortization. Part I of Form 4562 is used to figure your allowable section 179 expense deduction from all sources. Report the amount on line 12 of Form 4562 allocable to a passive activity from the partnership following the Instructions for Form 8582. If the amount is not a passive activity deduction, report it on Schedule E (Form 1040), Part II, column (j).

Line 10. Deductions related to portfolio income.—Amounts entered on this line are deductions that are clearly and directly allocable to portfolio income (other than investment interest expense and section 212 expenses from a REMIC). Generally, you should enter line 10 amounts on Schedule A (Form 1040), line 21. See the Instructions for Schedule A, lines 20 through 25, for more information. These deductions are not taken into account in figuring your passive activity loss for the year. Do not enter them on Form 8582.

Line 11. Other deductions.—Amounts on this line are deductions not included on lines 8, 9, 10, and 17e, such as:

- Itemized deductions (Form 1040 filers enter on Schedule A (Form 1040)).

Note: *If there was a gain (loss) from a casualty or theft to property not used in a trade or business or for income-producing purposes, you will be notified by the partnership. You will have to complete your own Form 4684.*

- Any penalty on early withdrawal of savings.
- Soil and water conservation expenditures (section 175).
- Expenditures for the removal of architectural and transportation barriers to the elderly and disabled that the partnership elected to treat as a current expense (section 190).
- Any amounts paid during the tax year for insurance which constitutes medical care for a partner, a partner's spouse, and a partner's dependents. Under the provisions of section 162(l), a partner may be allowed a deduction up to 25% of such amounts. The deduction is claimed on line 26 of Form 1040.
- Payments on behalf of a partner to an IRA, Keogh, or a Simplified Employee Pension (SEP) plan. See Form 1040 Instructions for lines 24a and 24b to figure your IRA deduction. Payments made to a Keogh or SEP plan will be entered on Form 1040, line 27. If the payments to a Keogh plan were to a defined benefit plan, the partnership should give you a statement showing the amount of the benefit accrued for the tax year.
- Interest expense allocated to debt-financed distributions. The manner in which you report such interest expense depends on your use of the distributed debt proceeds. See Notice 89-35, 1989-1 C.B. 675, for details.

The partnership should give you a description and the amount of your share for each of these items.

Investment Interest

If the partnership paid or accrued interest on debts properly allocable to investment property, the amount of interest you are allowed to deduct may be limited.

For more information and the special provisions that apply to investment interest expense, see **Form 4952**, Investment Interest Expense Deduction, and **Pub. 550,** Investment Income and Expenses.

Line 12a. Interest expense on investment debts.—Enter this amount on Form 4952 along with your investment interest expense from other sources to determine how much of your total investment interest is deductible.

Lines 12b(1) and (2). Investment income and investment expenses.—Use the amounts on these lines to determine the amount to enter on Form 4952.

Caution: *The amounts shown on lines 12b(1) and (2) include only investment income and expenses included on lines 4 and 10 of this Schedule K-1. The partnership should attach a schedule which shows the amount of any investment income and expenses included on any other lines of this Schedule K-1. Use these amounts to adjust lines 12b(1) and 12b(2) to determine your total investment income and total investment expenses from this partnership. Combine these totals with investment income and expenses from all other sources to determine the amount to enter on Form 4952.*

Credits

Caution: *If you have credits that are passive activity credits to you, you must complete Form 8582-CR (or Form 8810 for corporations) in addition to the credit forms referenced below. See the Instructions for Form 8582-CR (or Form 8810) for more information.*

Also, if you are entitled to claim more than one general business credit (i.e., investment credit, jobs credit, credit for alcohol used as fuel, research credit, and the low-income housing credit), you must complete ***Form 3800,*** *General Business Credit, in addition to the credit forms referenced below. If you have more than one credit, see the instructions for Form 3800 for more information.*

Line 13a. Credit for income tax withheld.—Include the amount the partnership reports to you in the total that you enter on line 55, page 2, Form 1040. Be sure to check the box on line 55 and write "Form K-1" on the dotted line next to the check box.

Line 13b. Low-income housing credit.—Your share of the partnership's low-income housing credit is shown on line 13b. Any allowable credit is entered on **Form 8586,** Low-Income Housing Credit.

The partnership will report separately on line 13b(1) that portion of the low-income housing credit for property placed in service before 1990 with respect to which section 42(j)(5) applies. All other low-income housing credits for property placed in service before 1990 will be reported on line 13b(2). Line 13b(3) will report the low-income housing credit for property placed in service after 1989 with respect to which section 42(j)(5) applies. All other low-income housing credits for property placed in service after 1989 will be reported on line 13b(4).

You must keep a separate record of the amount of low-income housing credit from each of these sources so that you will be able to correctly compute any recapture of low-income housing credit that may result from the disposition of all or part of your partnership interest. For more information, see the Instructions for Form 8586.

Caution: *You cannot claim the low-income housing credit on any qualified low-income housing project for which any person was allowed any benefit under section 502 of the Tax Reform Act of 1986.*

Line 13c. Qualified rehabilitation expenditures related to rental real estate activities.—The partnership should identify your share of the partnership's rehabilitation expenditures that are related to each rental real estate activity. Enter the expenditures on the appropriate line of **Form 3468**, Investment Credit, to figure your allowable investment credit.

Line 13d. Credits related to rental real estate activities (other than credits shown on lines 13b and 13c).—The partnership will identify the type of credit and any other information you need to compute credits related to rental real estate activities (other than the low-income housing credit and qualified rehabilitation expenditures).

Line 13e. Credits related to other rental activities.—The partnership will identify the type of credit and any other information you need to compute credits related to rental activities other than rental real estate activities.

Line 14. Other credits. —The partnership will identify the type of credit and any other information you need to compute credits related to a trade or business activity. Property qualifying for the regular or business energy investment credit (other than from cooperatives) will be reported to you on line 21.

Credits that may be reported on line 13d, 13e, or 14 (depending on the type of activity they relate to) include the following:

- Nonconventional source fuel credit.
- Unused credits from cooperatives.
- The credit for increasing research activities and orphan drug credit (enter these credits on **Form 6765**, Credit for Increasing Research Activities).
- Jobs credit. Complete **Form 5884,** Jobs Credit, and attach it to your return. See Form 5884 for definitions, special rules, and limitations.
- Credit for alcohol used as fuel. Complete **Form 6478,** Credit for Alcohol Used as Fuel, and attach it to your return.
- Disabled access credit. Complete **Form 8826**, Disabled Access Credit, and attach it to your return.

Note: *The passive activity limitations of section 469 may limit the amount of credits on lines 13b, 13c, 13d, 13e, and 14 that you may take. Lines 13b, 13c, 13d, and 13e credits are related to the rental activities of the partnership and are passive activity credits to all partners. Line 14 credits are related to the trade or business activities of the partnership and are passive activity credits to all partners who did not materially participate in the trade or business activity. In general, except to the extent phase-in relief is available, credits from passive activities are limited to the tax attributable to passive activities. If question H(1) or H(2) is checked "No," the partnership will provide you with information regarding activities for which the phase-in relief is available.*

However, partners who actively participated in the rental real estate activity may be able to use line 13d credits against tax on other income. The amount of these credits so usable is limited to their deduction equivalent up to $25,000 (net of losses from rental real estate activities deductible against up to $25,000 of other income).

The credits on lines 13b and 13c may be taken against tax on other income, subject to the same $25,000 limitation. Line 13e credits are limited to tax attributable to passive activities. The $25,000 deduction equivalent does not apply to line 13e and line 14 credits.

Self-Employment

Lines 15a, 15b, and 15c.—If you and your spouse are both partners, each of you must complete and file your own **Schedule SE (Form 1040)**, Social Security Self-Employment Tax, to report your partnership earnings (loss) from self-employment.

Line 15a. Net earnings (loss) from self-employment.—Before entering this amount on Schedule SE (Form 1040), you must adjust it by any section 179 expense deduction claimed, unreimbursed partnership expenses claimed, and depletion claimed on oil and gas properties.

Note: *Do not reduce net earnings from self-employment by any separately stated deduction for health insurance expenses allowable under section 162(l).*

If the amount on this line is a loss, enter only the deductible amount on Schedule SE (Form 1040). See **Limitations on Losses, Deductions, and Credits** on page 2.

If your partnership is an options dealer or a commodities dealer, see section 1402(i).

If your partnership is an investment club, see Revenue Ruling 75-525, 1975-2 C.B. 350.

Line 15b. Gross farming or fishing income.—If you are an individual partner, enter the amount from this line on Schedule E (Form 1040), Part V, line 41. You may also use this amount to figure self-employment income under the optional method on Schedule SE (Form 1040), Section B, Part II.

Line 15c. Gross nonfarm income.—If you are an individual partner, use this amount to figure self-employment income under the optional method on Schedule SE (Form 1040), Section B, Part II.

Adjustments and Tax Preference Items

Use the information reported on lines 16a through 16f (as well as your adjustments and tax preference items from other sources) to prepare your **Form 6251**, Alternative Minimum Tax—Individuals, **Form 4626**, Alternative Minimum Tax—Corporations, or **Form 8656,** Alternative Minimum Tax—Fiduciaries.

Lines 16e(1) and 16e(2). Gross income from, and deductions allocable to, oil, gas, and geothermal properties.—The amounts reported on these lines include only the gross income from, and deductions allocable to, oil, gas, and geothermal properties that are included on line 1 of Schedule K-1. The partnership should have attached a schedule that shows any income from or deductions allocable to such properties that are included on lines 2 through 11 and line 21 of Schedule K-1. Use the amounts reported on lines 16e(1) and 16e(2) and the amounts on the attached schedule to help you determine the net amount to enter on line 5g of Form 6251.

Line 16f. Other adjustments and tax preference items.—Enter the information on the schedule attached by the partnership for line 16f on the applicable lines of Form 6251.

Foreign Taxes

Lines 17a through 17g.—Use the information on lines 17a through 17g, and on any attached schedules, to figure your foreign tax credit. For more information see **Form 1116**, Foreign Tax Credit—Individual, Fiduciary, or Nonresident Alien Individual, and the related instructions; **Form 1118**, Foreign Tax Credit—Corporations, and the related instructions; and **Pub. 514**, Foreign Tax Credit for Individuals.

Other

Lines 18a and 18b.—The partnership will show on line 18a the total qualified expenditures to which an election under section 59(e) may apply. It will identify the type of expenditure on line 18b. If there is more than one type of expenditure, the amount of each type will be listed on an attachment. Generally, section 59(e) allows each partner to elect to deduct certain expenses ratably over the number of years in the applicable period rather than deduct the full amount in the current year. Under the election, you may deduct ratably over a 3-year period circulation expenditures. Research and experimental expenditures and mining exploration and development costs qualify for a writeoff period of 10 years. Intangible drilling and development costs may be deducted over a 60-month period, beginning with the month in which such costs were paid or incurred. If you make this election, these items are not treated as adjustments or tax preference items for purposes of the alternative minimum tax. Make the election on Form 4562.

Because each partner decides whether to make the election under section 59(e), the partnership cannot provide you with the amount of the adjustment or tax preference item related to the expenses listed on line 18a. You must decide both how to claim the expenses on your return and compute the resulting adjustment or tax preference item.

Recapture of Tax Credits

Lines 19a and 19b. Recapture of low-income housing credit.—A section 42(j)(5) partnership will report recapture of a low-income housing credit on line 19a. All other partnerships will report recapture of a low-income housing credit on line 19b. You must keep a separate record of recapture from each of these sources so that you will be able to correctly compute any recapture of low-income housing credit that may result from the disposition of all or part of your partnership interest. For more information, see **Form 8611,** Recapture of Low-Income Housing Credit.

Line 20. Investment credit properties subject to recapture.—When investment credit property is disposed of or ceases to be qualifying property or there is a decrease in the percentage of business use before the end of the recapture period or the useful life used to figure the original credit, you may have to recapture (pay back) the investment credit taken in prior years. Use the information on line 20 to figure your recapture tax on **Form 4255**, Recapture of Investment Credit. See the Form 3468 on which you took the original credit for other information you need to complete Form 4255.

You may also need Form 4255 if you disposed of more than one-third of your interest in a partnership.

Line 21.—Amounts included on the statement for this line are not included elsewhere such as:

a. Taxes paid on undistributed capital gains by a regulated investment company. (Form 1040 filers enter your share of these taxes on line 61, and add the words "Form 1065.")

b. Number of gallons of each fuel used during the tax year and the appropriate tax rate for each type of use identified on **Form 4136**, Credit for Federal Tax on Fuels, and in the related instructions. Also your share of the credit allowed for qualified diesel-powered highway vehicles. Use this information to complete Form 4136.

c. Your share of gross income from the property, share of production for the tax year, etc., needed to figure your depletion deduction for oil and gas wells. The partnership should also allocate to you a share of the adjusted basis of each partnership oil or gas property. See Pub. 535 for how to figure your depletion deduction.

d. Tax-exempt interest income earned by the partnership. You must report on your return, as an item of information, the amount of tax-exempt interest received or accrued during the year. Individual partners should report this amount on line 8b of Form 1040.

e. Recapture of the section 179 expense deduction. If the recapture was caused by a disposition of the property, include the amount on Form 4797, line 16.

The amount to be recaptured will be limited to the amount you deducted in earlier years.

f. Any items you need to determine the basis of your partnership interest for purposes of section 704(d) because Item K on Schedule K-1 is not completed; or any items (other than those shown in Item B) you need to figure your amount at risk.

g. Any information or statements you need to comply with section 6111 (regarding tax shelters) or section 6662(d)(2)(B)(ii) (regarding adequate disclosure of items that may cause an understatement of income tax on your return).

h. Farm production expenses. You may be eligible to elect to deduct these expenses currently or capitalize them under section 263A. See **Pub. 225,** Farmer's Tax Guide, and Temporary Regulations section 1.263A-1T(c).

i. Any information you need to compute the interest due under section 453(l)(3) with respect to the disposition of certain timeshares and residential lots on the installment method. If you are an individual, report the interest on Form 1040, line 54. Write "453(l)(3)" and the amount of the interest on the dotted line to the left of line 54.

j. Any information you need to compute the interest due under section 453A(c) with respect to certain installment sales. If you are an individual, report the interest on Form 1040, line 54. Write "453A(c)" and the amount of the interest on the dotted line to the left of line 54.

k. Any information you need to compute the interest due or to be refunded under the look-back method of section 460(b)(3) on certain long-term contracts. Use **Form 8697,** Interest Computation Under the Look-Back Method for Completed Long-Term Contracts, to report any such interest.

l. Any information you need relating to interest expense that you are required to capitalize under section 263A for production expenditures. See Notice 88-99, 1988-2 C.B. 422, for more information.

m. Any information you need to compute unrelated business taxable income under section 512(a)(1) (but excluding any modifications required by paragraphs (8) through (15) of section 512 (b)) for a partner that is a tax-exempt organization.

Note: *A partner is required to notify the partnership of its tax-exempt status.*

n. Your share of the partnership's energy property qualifying for the credit and any regular investment credit property that qualifies for the credit. Generally, you can claim a tax credit based on these amounts by filing Form 3468.

o. Any other information you may need to file your return not shown elsewhere on Schedule K-1.

The partnership should give you a description and the amount of your share for each of these items.

SCHEDULE K-1 (Form 1065)
Department of the Treasury
Internal Revenue Service

Partner's Share of Income, Credits, Deductions, Etc.

▶ See separate instructions.

For calendar year 1990 or tax year beginning , 1990, and ending , 19

OMB No. 1545-0099

1990

Partner's identifying number ▶

Partner's name, address, and ZIP code

Partnership's identifying number ▶

Partnership's name, address, and ZIP code

A Is this partner a general partner? ☐ Yes ☐ No

B Partner's share of liabilities (see instructions):
Nonrecourse . . . . . $
Qualified nonrecourse financing . . $
Other . . . . . $

C What type of entity is this partner? ▶

D Is this partner a ☐ domestic or a ☐ foreign partner?

E Enter partner's percentage of:

	(i) Before change or termination	(ii) End of year
Profit sharing	%	%
Loss sharing	%	%
Ownership of capital	%	%

F IRS Center where partnership filed return ▶

G(1) Tax shelter registration number ▶

(2) Type of tax shelter ▶

H(1) Did the partner's ownership interest in the partnership change after Oct. 22, 1986? ☐ Yes ☐ No
If "Yes," attach statement. (See Form 1065 Instructions.)

(2) Did the partnership start or acquire a new activity after Oct. 22, 1986? ☐ Yes ☐ No
If "Yes," attach statement. (See Form 1065 Instructions.)

I Check here if this partnership is a publicly traded partnership as defined in section 469(k)(2) ☐

J Check applicable boxes: (1) ☐ Final K-1 (2) ☐ Amended K-1

K Reconciliation of partner's capital account:

(a) Capital account at beginning of year	(b) Capital contributed during year	(c) Income (loss) from lines 1, 2, 3, and 4 below	(d) Income not included in column (c), plus nontaxable income	(e) Losses not included in column (c), plus unallowable deductions	(f) Withdrawals and distributions	(g) Capital account at end of year (combine columns (a) through (f))
				( )	( )	

	(a) Distributive share item		(b) Amount	(c) 1040 filers enter the amount in column (b) on:
Income (Loss)	1 Ordinary income (loss) from trade or business activities	1		(See Partner's Instructions for Schedule K-1 (Form 1065))
	2 Net income (loss) from rental real estate activities	2		
	3 Net income (loss) from other rental activities	3		
	4 Portfolio income (loss):			
	a Interest	4a		Sch. B, Part I, line 1
	b Dividends	4b		Sch. B, Part II, line 5
	c Royalties	4c		Sch. E, Part I, line 4
	d Net short-term capital gain (loss)	4d		Sch. D, line 5, col. (f) or (g)
	e Net long-term capital gain (loss)	4e		Sch. D, line 12, col. (f) or (g)
	f Other portfolio income (loss) *(attach schedule)*	4f		(Enter on applicable line of your return)
	5 Guaranteed payments to partner	5		(See Partner's Instructions for Schedule K-1 (Form 1065))
	6 Net gain (loss) under section 1231 (other than due to casualty or theft)	6		
	7 Other income (loss) *(attach schedule)*	7		(Enter on applicable line of your return)
Deductions	8 Charitable contributions	8		Sch. A, line 14 or 15
	9 Section 179 expense deduction *(attach schedule)*	9		(See Partner's Instructions for Schedule K-1 (Form 1065))
	10 Deductions related to portfolio income *(attach schedule)*	10		
	11 Other deductions *(attach schedule)*	11		
Investment Interest	12a Interest expense on investment debts	12a		Form 4952, line 1
	b (1) Investment income included on lines 4a through 4f above	b(1)		(See Partner's Instructions for Schedule K-1 (Form 1065))
	(2) Investment expenses included on line 10 above	b(2)		
Credits	13a Credit for income tax withheld	13a		(See Partner's Instructions for Schedule K-1 (Form 1065))
	b Low-income housing credit:			
	(1) From section 42(j)(5) partnerships for property placed in service before 1990	b(1)		Form 8586, line 5
	(2) Other than on line 13b(1) for property placed in service before 1990	b(2)		
	(3) From section 42(j)(5) partnerships for property placed in service after 1989	b(3)		
	(4) Other than on line 13b(3) for property placed in service after 1989	b(4)		
	c Qualified rehabilitation expenditures related to rental real estate activities (see instructions)	13c		(See Partner's Instructions for Schedule K-1 (Form 1065))
	d Credits (other than credits shown on lines 13b and 13c) related to rental real estate activities (see instructions)	13d		
	e Credits related to other rental activities (see instructions)	13e		
	14 Other credits (see instructions)	14		

	(a) Distributive share item		(b) Amount	(c) 1040 filers enter the amount in column (b) on:
Self-employment	15a Net earnings (loss) from self-employment	15a		Sch. SE, Section A or B
	b Gross farming or fishing income	15b		(See Partner's Instructions for Schedule K-1 (Form 1065))
	c Gross nonfarm income	15c		
Adjustments and Tax Preference Items	16a Accelerated depreciation of real property placed in service before 1987	16a		(See Partner's Instructions for Schedule K-1 (Form 1065) and Form 6251 Instructions)
	b Accelerated depreciation of leased personal property placed in service before 1987	16b		
	c Depreciation adjustment on property placed in service after 1986	16c		
	d Depletion (other than oil and gas)	16d		
	e (1) Gross income from oil, gas, and geothermal properties	e(1)		
	(2) Deductions allocable to oil, gas, and geothermal properties	e(2)		
	f Other adjustments and tax preference items *(attach schedule)*	16f		
Foreign Taxes	17a Type of income ▶			Form 1116, Check boxes
	b Name of foreign country or U.S. possession ▶			Form 1116, Part I
	c Total gross income from sources outside the U.S. *(attach schedule)*	17c		Form 1116, Part I
	d Total applicable deductions and losses *(attach schedule)*	17d		Form 1116, Part I
	e Total foreign taxes (check one): ▶ ☐ Paid ☐ Accrued	17e		Form 1116, Part II
	f Reduction in taxes available for credit *(attach schedule)*	17f		Form 1116, Part III
	g Other foreign tax information *(attach schedule)*	17g		See Form 1116 Instructions
Other	18a Total expenditures to which a section 59(e) election may apply	18a		(See Partner's Instructions for Schedule K-1 (Form 1065))
	b Type of expenditures ▶			
Recapture of Tax Credits	19 Recapture of low-income housing credit:			
	a From section 42(j)(5) partnerships	19a		Form 8611, line 8
	b Other than on line 19a	19b		

20 Investment credit properties:	A	B	C	
a Description of property (State whether recovery or nonrecovery property. If recovery property, state whether regular percentage method or section 48(q) election used.)				Form 4255, top
b Date placed in service				Form 4255, line 2
c Cost or other basis				Form 4255, line 3
d Class of recovery property or original estimated useful life				Form 4255, line 4
e Date item ceased to be investment credit property				Form 4255, line 8

Supplemental Information

21 Supplemental information required to be reported separately to each partner *(attach additional schedules if more space is needed)*:

SCHEDULE K-1 (Form 1065)
Department of the Treasury
Internal Revenue Service

Partner's Share of Income, Credits, Deductions, Etc.

▶ See separate instructions.

For calendar year 1990 or tax year beginning , 1990, and ending , 19

OMB No. 1545-0099

1990

Partner's identifying number ▶	Partnership's identifying number ▶
Partner's name, address, and ZIP code	Partnership's name, address, and ZIP code

A Is this partner a general partner? . . . ☐ Yes ☐ No

B Partner's share of liabilities (see instructions):
- Nonrecourse . . . . . $ _____
- Qualified nonrecourse financing . . $ _____
- Other . . . . . $ _____

C What type of entity is this partner? ▶ _____

D Is this partner a ☐ domestic or a ☐ foreign partner?

E Enter partner's percentage of:

	(i) Before change or termination	(ii) End of year
Profit sharing	_____ %	_____ %
Loss sharing	_____ %	_____ %
Ownership of capital	_____ %	_____ %

F IRS Center where partnership filed return ▶ _____

G(1) Tax shelter registration number ▶ _____

(2) Type of tax shelter ▶ _____

H(1) Did the partner's ownership interest in the partnership change after Oct. 22, 1986? . . . . . ☐ Yes ☐ No
If "Yes," attach statement. (See Form 1065 Instructions.)

(2) Did the partnership start or acquire a new activity after Oct. 22, 1986? . . . . . ☐ Yes ☐ No
If "Yes," attach statement. (See Form 1065 Instructions.)

I Check here if this partnership is a publicly traded partnership as defined in section 469(k)(2) . . . . . ☐

J Check applicable boxes: (1) ☐ Final K-1 (2) ☐ Amended K-1

K Reconciliation of partner's capital account:

(a) Capital account at beginning of year	(b) Capital contributed during year	(c) Income (loss) from lines 1, 2, 3, and 4 below	(d) Income not included in column (c), plus nontaxable income	(e) Losses not included in column (c), plus unallowable deductions	(f) Withdrawals and distributions	(g) Capital account at end of year (combine columns (a) through (f))
				( )	( )	

	(a) Distributive share item		(b) Amount	(c) 1040 filers enter the amount in column (b) on:
Income (Loss)	1	Ordinary income (loss) from trade or business activities	1	(See Partner's Instructions for Schedule K-1 (Form 1065))
	2	Net income (loss) from rental real estate activities	2	
	3	Net income (loss) from other rental activities	3	
	4	Portfolio income (loss):		
	a	Interest	4a	Sch. B, Part I, line 1
	b	Dividends	4b	Sch. B, Part II, line 5
	c	Royalties	4c	Sch. E, Part I, line 4
	d	Net short-term capital gain (loss)	4d	Sch. D, line 5, col. (f) or (g)
	e	Net long-term capital gain (loss)	4e	Sch. D, line 12, col. (f) or (g)
	f	Other portfolio income (loss) *(attach schedule)*	4f	(Enter on applicable line of your return)
	5	Guaranteed payments to partner	5	(See Partner's Instructions for Schedule K-1 (Form 1065))
	6	Net gain (loss) under section 1231 (other than due to casualty or theft)	6	
	7	Other income (loss) *(attach schedule)*	7	(Enter on applicable line of your return)
Deductions	8	Charitable contributions	8	Sch. A, line 14 or 15
	9	Section 179 expense deduction *(attach schedule)*	9	(See Partner's Instructions for Schedule K-1 (Form 1065))
	10	Deductions related to portfolio income *(attach schedule)*	10	
	11	Other deductions *(attach schedule)*	11	
Investment Interest	12a	Interest expense on investment debts	12a	Form 4952, line 1
	b	(1) Investment income included on lines 4a through 4f above	b(1)	(See Partner's Instructions for Schedule K-1 (Form 1065))
		(2) Investment expenses included on line 10 above	b(2)	
Credits	13a	Credit for income tax withheld	13a	(See Partner's Instructions for Schedule K-1 (Form 1065))
	b	Low-income housing credit:		
		(1) From section 42(j)(5) partnerships for property placed in service before 1990	b(1)	Form 8586, line 5
		(2) Other than on line 13b(1) for property placed in service before 1990	b(2)	
		(3) From section 42(j)(5) partnerships for property placed in service after 1989	b(3)	
		(4) Other than on line 13b(3) for property placed in service after 1989	b(4)	
	c	Qualified rehabilitation expenditures related to rental real estate activities (see instructions)	13c	(See Partner's Instructions for Schedule K-1 (Form 1065))
	d	Credits (other than credits shown on lines 13b and 13c) related to rental real estate activities (see instructions)	13d	
	e	Credits related to other rental activities (see instructions)	13e	
	14	Other credits (see instructions)	14	

	(a) Distributive share item		(b) Amount	(c) 1040 filers enter the amount in column (b) on:
Self-employment	15a Net earnings (loss) from self-employment	15a		Sch. SE, Section A or B
	b Gross farming or fishing income	15b		(See Partner's Instructions for Schedule K-1 (Form 1065))
	c Gross nonfarm income	15c		
Adjustments and Tax Preference Items	16a Accelerated depreciation of real property placed in service before 1987	16a		(See Partner's Instructions for Schedule K-1 (Form 1065) and Form 6251 Instructions)
	b Accelerated depreciation of leased personal property placed in service before 1987	16b		
	c Depreciation adjustment on property placed in service after 1986	16c		
	d Depletion (other than oil and gas)	16d		
	e (1) Gross income from oil, gas, and geothermal properties	e(1)		
	(2) Deductions allocable to oil, gas, and geothermal properties	e(2)		
	f Other adjustments and tax preference items *(attach schedule)*	16f		
Foreign Taxes	17a Type of income ►			Form 1116, Check boxes
	b Name of foreign country or U.S. possession ►			Form 1116, Part I
	c Total gross income from sources outside the U.S. *(attach schedule)*	17c		Form 1116, Part I
	d Total applicable deductions and losses *(attach schedule)*	17d		Form 1116, Part I
	e Total foreign taxes (check one): ► ☐ Paid ☐ Accrued	17e		Form 1116, Part II
	f Reduction in taxes available for credit *(attach schedule)*	17f		Form 1116, Part III
	g Other foreign tax information *(attach schedule)*	17g		See Form 1116 Instructions
Other	18a Total expenditures to which a section 59(e) election may apply	18a		(See Partner's Instructions for Schedule K-1 (Form 1065))
	b Type of expenditures ►			
Recapture of Tax Credits	19 Recapture of low-income housing credit:			
	a From section 42(j)(5) partnerships	19a		Form 8611, line 8
	b Other than on line 19a	19b		

20 Investment credit properties:	A	B	C	
a Description of property (State whether recovery or nonrecovery property. If recovery property, state whether regular percentage method or section 48(q) election used.)				Form 4255, top
b Date placed in service				Form 4255, line 2
c Cost or other basis				Form 4255, line 3
d Class of recovery property or original estimated useful life				Form 4255, line 4
e Date item ceased to be investment credit property				Form 4255, line 8

Supplemental Information

21 Supplemental information required to be reported separately to each partner *(attach additional schedules if more space is needed):*

1990

Department of the Treasury
Internal Revenue Service

Partner's Instructions for Schedule K-1 (Form 1065)

Partner's Share of Income, Credits, Deductions, Etc.

(For Partner's Use Only)

(Section references are to the Internal Revenue Code unless otherwise noted.)

Reminder

Four-year ratable spread of short-year income.—Many partnerships were required to change their tax year in 1987. As a result of this change, the affected partnerships issued two Schedule K-1s in 1987, one for the full tax year ending in 1987, and one for the short tax year ending in 1987. If you were a partner in such a partnership, your partnership should have identified the Schedule K-1 that it issued to you for its short year by checking the box in Item H on your Schedule K-1 for 1987. A partner in a partnership that had net income for the short year was given the option of reporting the partner's distributive share of short-year partnership income in full in 1987 or spreading it ratably over 4 years. If you chose to report your distributive share of the short-year partnership income over 4 years, be sure to report 25% of each partnership income and expense item on your 1990 income tax return. When you report each item on the applicable form or schedule, if an itemization by source is required, you should list it on a separate line, identify the partnership to which the income or expense relates, and identify the income or expense as a short-year amount by writing "PYA" beside it.

General Instructions

Purpose of Schedule K-1.—The partnership uses Schedule K-1 to report your share of the partnership's income, credits, deductions, etc. **Please keep it for your records. Do not file it with your tax return.** A copy has been filed with the IRS.

Although the partnership is not subject to income tax, you are liable for tax on your share of the partnership income, whether or not distributed, and you must include your share on your tax return if a return is required.

The amount of loss and deduction that you may claim on your tax return may be less than the amount reported on Schedule K-1. **It is the partner's responsibility to consider and apply any applicable limitations.** See **Limitations on Losses, Deductions, and Credits,** on page 2, for more information.

Where "(attach schedule)" appears beside a line item on Schedule K-1, it means you should see either the schedule that the partnership has attached for that line or the space below line 21 of Schedule K-1.

Where "(see instructions for Form 1065)" appears beside an item or line on Schedule K-1, it means the partnership should see the Instructions for Form 1065 before completing these lines. You may ignore this notation.

Inconsistent treatment of items.—Generally, you must report partnership items shown on your Schedule K-1 (and any attached schedules) the same way that the partnership treated the items on its return. This rule does not apply if your partnership is within the "small partnership exception" and does not elect to have the tax treatment of partnership items determined at the partnership level under section 6231(a)(1)(B)(ii).

If the treatment on your original or amended return is inconsistent with the partnership's treatment, or if the partnership was required to, but has not filed a return, you must file **Form 8082**, Notice of Inconsistent Treatment or Amended Return (Administrative Adjustment Request (AAR)), with your original or amended return to identify and explain any inconsistency (or to note that a partnership return has not been filed). See section 6222 for more information.

If you are required to file Form 8082 but fail to do so, you may be subject to the accuracy-related penalty under section 6662. This penalty is in addition to any tax that results from making your amount or treatment of the item consistent with that shown on the partnership's return. Any deficiency that results from making the amounts consistent may be assessed immediately.

Errors.—If you believe the partnership has made an error on your Schedule K-1, notify the partnership and ask for a corrected Schedule K-1. Do not change any items on your copy of Schedule K-1. Be sure that the partnership sends a copy of any corrected Schedule K-1 to the Internal Revenue Service. If you are a partner in a partnership that does not meet the small partnership exception and you report any partnership item on your return in a manner that differs from the way the partnership reported it, you must file Form 8082. See **Inconsistent treatment of items** above, for more information.

Sale or exchange of partnership interest.—Generally, if a partner sells or exchanges a partnership interest where unrealized receivables or substantially appreciated inventory items are involved, the partner must notify the partnership, in writing, within 30 days of the exchange. An exception to this rule is made in the case of sales or exchanges of publicly traded partnership interests for which a broker is required to file **Form 1099-B,** Proceeds From Broker and Barter Exchange Transactions. See **Form 8308,** Report of a Sale or Exchange of Certain Partnership Interests, for more information.

Nominee reporting.—Generally, any person who holds, directly or indirectly, an interest in a partnership as a nominee for another person is required to furnish a written statement to the partnership by the last day of the month following the end of the partnership's tax year that includes the name, address, and identifying number of the nominee and such other person, description of the partnership interest held as nominee for that person, and other information required under Temporary Regulations section 1.6031(c)-1T. In lieu of this statement, the nominee may furnish to the person on whose behalf the nominee holds the partnership interest a copy of Schedule K-1 and related information within 30 days of receiving it from the partnership. See section 6031(c) and Temporary Regulations section 1.6031(c)-1T for more information.

Note: *A nominee who fails to furnish when due all of the required information, or who furnishes incorrect information, is subject to a penalty of $50 with respect to each statement for which a failure occurs. The maximum penalty is $100,000 for all such failures during a calendar year. If the requirement to report correct information is intentionally disregarded, each $50 penalty is increased to $100 or, if greater, 10% of the aggregate amount of items required to be reported (and the $100,000 maximum does not apply). See sections 6722 and 6724 for more information.*

United States persons with interests in foreign partnerships.—If you are a U.S. person in a foreign partnership that does not file a partnership return, you may be required to furnish information necessary to determine your correct income (loss) from the partnership. See Regulations section 1.6031-1. Also, see section 6046A for other information you may be required to report.

International boycotts.—Every partnership that had operations in, or related to, a boycotting country, company, or a national of a country must file **Form 5713,** International Boycott Report.

If the partnership cooperated with an international boycott, it must give you a copy of its Form 5713. You must file your own Form 5713 to report the activities of the partnership and any other boycott operations that you may have. You may lose certain tax benefits if the partnership participated in, or cooperated with, an international boycott. See Form 5713 and the instructions for more information.

Definitions

General partner.—A general partner is a partner who is personally liable for partnership debts.

Limited partner.—A limited partner is a partner whose potential personal liability for partnership debts is limited to the amount of money or other property that the partner contributed or is required to contribute to the partnership.

Nonrecourse loans.—Nonrecourse loans are those liabilities of the partnership for which none of the partners has any personal liability.

Elections.—Generally, the partnership decides how to figure taxable income from its operations. However, some elections are made by you separately on your income tax return and not by the partnership. These elections are made under the following code sections:

- Section 108(b)(5) (regarding income from the discharge of indebtedness);
- Section 617 (regarding the deduction and recapture of certain mining exploration expenditures); and
- Section 901 (regarding the foreign tax credit).

Also, you may make an election under section 59(e) to deduct certain qualified expenditures ratably over the period of time specified in that section. For more information, see the instructions for lines 18a and 18b of Schedule K-1.

Additional information.—For more information on the treatment of partnership income, credits, deductions, etc., see **Pub. 541**, Tax Information on Partnerships; **Pub. 535**, Business Expenses; and **Pub. 556**, Examination of Returns, Appeal Rights, and Claims for Refund.

The above publications and other publications referenced throughout these instructions may be obtained at most IRS offices. To order publications and forms, call our toll-free number 1-800-TAX-FORM (829-3676).

Limitations on Losses, Deductions, and Credits

There are three separate potential limitations on the amount of partnership losses that you may deduct on your return. These limitations and the order in which they must be applied are as follows: the basis rules, the at-risk rules, and the passive loss rules. Each of these limitations is discussed separately below.

Note: *Other limitations may apply to specific deductions (for example, the section 179 expense deduction). These limitations on specific deductions generally apply before the basis, at-risk, and passive loss limitations.*

Basis Rules

Generally, you may **not** claim your share of a partnership loss (including a capital loss) to the extent that it is greater than the adjusted basis of your partnership interest at the end of the partnership's tax year.

You can compute the adjusted basis of your partnership interest by adding items which increase your basis and then subtracting items which decrease your basis.

Items which increase your basis are:

- Money and your adjusted basis in property contributed to the partnership.
- Your share of the partnership's income.
- Your share of the increase in the liabilities of the partnership (or your individual liabilities caused by your assumption of partnership liabilities).

Items which decrease your basis are:

- Money and the adjusted basis of property distributed to you.
- Your share of the partnership's losses.
- Your share of the decrease in the liabilities of the partnership (or your individual liabilities assumed by the partnership).

The above is not a complete list of items and factors which determine basis. See Pub. 541 for more information.

At-Risk Rules

Generally, if you have: **(1)** a loss or other deduction from an activity carried on as a trade or business or for the production of income by the partnership, and **(2)** amounts in the activity for which you are not at risk, you will have to complete **Form 6198**, At-Risk Limitations, to figure your allowable loss.

The at-risk rules generally limit the amount of loss (including loss on the disposition of assets) and other deductions (such as the section 179 expense deduction) that you can claim to the amount you could actually lose in the activity.

Generally, you are not at risk for amounts such as the following:

- Nonrecourse loans used to finance the activity, to acquire property used in the activity, or to acquire your interest in the activity, that are not secured by your own property (other than the property used in the activity). See **Item B,** on page 4, for the exception for qualified nonrecourse financing secured by real property.
- Cash, property, or borrowed amounts used in the activity (or contributed to the activity, or used to acquire your interest in the activity) that are protected against loss by a guarantee, stop-loss agreement, or other similar arrangement (excluding casualty insurance and insurance against tort liability).
- Amounts borrowed for use in the activity from a person who has an interest in the activity, other than as a creditor, or who is related, under section 465(b)(3), to a person (other than yourself) having such an interest.

To help you complete Form 6198, the partnership should specify on an attachment to Schedule K-1 your share of the total pre-1976 losses from a section 465(c)(1) activity for which there existed a corresponding amount of nonrecourse liability at the end of the year in which the losses occurred. In addition, you should get a separate statement of income, expenses, etc., for each activity from the partnership.

Passive Activity Limitations

In general.—Section 469 provides rules that limit the deduction of certain losses and credits. These rules apply to partners who:

- Are individuals, estates, trusts, closely held corporations, or personal service corporations, and
- Have a passive activity loss or credit for the tax year.

Passive activities include: **(1)** trade or business activities in which you do not materially participate, and **(2)** activities that meet the definition of rental activities under Temporary Regulations section 1.469-1T(e)(3). See the Instructions for Form 8582 (or Form 8810).

Passive activities do not include: **(1)** trade or business activities in which you materially participate; **(2)** working interests in oil or gas wells; **(3)** qualifying low-income housing activities; and **(4)** an activity of trading personal property for the account of owners of interests in the activity.

If the partnership is conducting more than one activity, it will give you a statement attached to your Schedule K-1 that identifies each activity (trade or business activity, rental real estate activity, rental activity other than rental real estate, etc.) and specifies the income (loss), deductions, and credits from each activity.

If you are an individual, an estate, or a trust, and you have a passive activity loss or credit, get **Form 8582,** Passive Activity Loss Limitations, to compute your allowable passive losses and **Form 8582-CR,** Passive Activity Credit Limitations, to compute your allowable passive credits. For a corporation, get **Form 8810,** Corporate Passive Activity Loss and Credit Limitations. See the instructions for those forms for more information.

Material Participation in Trade or Business Activities

You must determine whether you materially participated in each trade or business activity held through the partnership. **All determinations of material participation are made with respect to your participation during the tax year of the partnership.**

Material participation standards for partners who are individuals are listed below. Special rules apply to certain retired or disabled farmers and to the surviving spouses of farmers. See Temporary Regulations section 1.469-5T and the Instructions for Form 8582 for details.

Corporations should refer to the Instructions for Form 8810 for the material participation standards that apply to them.

Individuals (other than limited partners).—If you are an individual (either a general partner or a limited partner who owned a general partnership interest at all times during the tax year), you materially participate in an activity only if:

(1) You participated in the activity for more than 500 hours during the tax year;

(2) Your participation in the activity for the tax year constituted substantially all of the participation in the activity of all individuals (including individuals who are not owners of interests in the activity);
(3) You participated in the activity for more than 100 hours during the tax year, and your participation in the activity for the tax year was not less than the participation in the activity of any other individual (including individuals who are not owners of interests in the activity) for the tax year;
(4) The activity is a significant participation activity for the tax year, and you participated in all significant participation activities (including activities outside the partnership) during the year for more than 500 hours. A "significant participation activity" is any trade or business activity in which you participated for more than 100 hours during the year and in which you did not materially participate under any of the material participation tests (other than this test 4);
(5) You materially participated in the activity for any 5 tax years (whether or not consecutive) during the 10 tax years that immediately precede the tax year;
(6) The activity is a personal service activity and you materially participated in the activity for any 3 tax years (whether or not consecutive) preceding the tax year. A "personal service activity" is an activity involving the performance of personal services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, or any other trade or business in which capital is not a material income-producing factor; or
(7) Based on all of the facts and circumstances, you participated in the activity on a regular, continuous, and substantial basis during the tax year.

Limited partners.—If you are a limited partner, you do not materially participate in an activity unless you meet one of the tests in paragraphs (1), (5), or (6) above.

Work counted toward material participation.—Generally, any work that you or your spouse do in connection with an activity held through a partnership (where you own your partnership interest at the time the work is done) is counted toward material participation. However, work in connection with the activity is not counted toward material participation if:
(1) The work is not the sort of work that owners of the activity would usually do and one of the principal purposes of the work that you or your spouse do is to avoid the passive loss or credit limitations; or **(2)** you do the work in your capacity as an investor and you are not directly involved in the day-to-day operations of the activity. Examples of work done as an investor which would not count toward material participation include: **(a)** studying and reviewing financial statements or reports on operations of the activity; **(b)** preparing or compiling summaries or analyses of the finances or operations of the activity for your own use; and **(c)** monitoring the finances or operations of the activity in a non-managerial capacity.

Effect of determination.—If you determine that you materially participated in a trade or business activity held through the partnership, report the income (loss), deductions, and credits from that activity as indicated in either column (c) of Schedule K-1 or the instructions for each line.

If you determine that you did not materially participate in a trade or business activity held through the partnership or if you have income (loss), deductions, or credits from a rental activity held through the partnership, the amounts from that activity are passive. Report passive income (losses), deductions, and credits as follows:

If you have an overall gain (the excess of income over deductions and losses, including any prior year unallowed loss) from a passive activity, report the income, deductions, and losses from the activity as indicated on Schedule K-1 or in these instructions.

If you have an overall loss (the excess of deductions and losses, including any prior year unallowed loss, over income) or credits from a passive activity, you must report the income, deductions, losses, and credits from **all** passive activities following the Instructions for Form 8582, or Form 8582-CR (or Form 8810), to see if your deductions, losses, and credits are limited under the passive activity rules.

See the Instructions for Forms 8582 and 8582-CR (or Form 8810) for more information.

Publicly Traded Partnerships

The provisions of section 469 are applied separately for items (other than the low-income housing credit and the rehabilitation investment credit) from each publicly traded partnership (PTP). Thus, a net passive loss from a PTP may not be deducted from other passive income. Instead, a passive loss from a PTP is suspended and carried forward to be applied against passive income from the same PTP in later years. If the partner's entire interest in the PTP is completely disposed of, any unused losses are allowed in full in the year of disposition.

If you have an overall gain from a PTP, the net gain is nonpassive income. In addition, the nonpassive income is included in investment income for purposes of figuring your investment interest expense deduction under section 163(d).

See the Instructions for Form 8582 (or Form 8810) to determine how to report net income or net loss from passive activities held through a PTP.

Active Participation in a Rental Real Estate Activity

If you actively participated in a rental real estate activity, you may be able to deduct up to $25,000 of the loss from the activity from nonpassive income. This "special allowance" is an exception to the general rule disallowing losses in excess of income from passive activities. The exception is not available if you were married for the tax year, file a separate return for the year, and did not live apart from your spouse at all times during the year.

Only individuals and qualifying estates can actively participate in a rental real estate activity. Estates (other than qualifying estates), trusts, and corporations cannot actively participate. Limited partners cannot actively participate unless future regulations provide an exception.

You are not considered to actively participate in a rental real estate activity if at any time during the tax year your interest (including your spouse's interest) in the activity was less than 10% (by value) of all interests in the activity.

Active participation is a less stringent requirement than material participation. You may be treated as actively participating if you participated, for example, in making management decisions or arranging for others to provide services (such as repairs) in a significant and bona fide sense. Management decisions that can count as active participation include approving new tenants, deciding on rental terms, approving capital or repair expenditures, and other similar decisions.

An estate is treated as actively participating for tax years ending less than 2 years after the date of the decedent's death if the decedent would have satisfied the active participation requirements for the activity for the tax year the decedent died. Such an estate is a "qualifying estate."

The maximum special allowance that single individuals and married individuals filing a joint return for the tax year can qualify for is $25,000. The maximum is $12,500 in the case of married individuals who file separate returns for the tax year and who lived apart all times during the year. The maximum special allowance for which an estate can qualify is $25,000 reduced by the special allowance for which the surviving spouse qualifies. Any phase-in of the surviving spouse's allowance is disregarded in computing the estate's maximum allowance.

If your modified adjusted gross income is $100,000 or less ($50,000 or less in the case of married persons filing separately), your loss is deductible up to the amount of the maximum special allowance referred to in the preceding paragraph. If your modified adjusted gross income is more than $100,000 (more than $50,000 in the case of married persons filing separately), the special allowance is 50% of the difference between $150,000 ($75,000 in the case of married persons filing separately) and your modified adjusted gross income. When modified adjusted gross income is $150,000 or more ($75,000 or more in the case of married persons filing separately), there is no special allowance. Modified adjusted gross income is your adjusted gross income figured without taking into account any passive activity loss, any taxable social security or equivalent railroad retirement benefits, any deductible contributions to an IRA or certain other qualified retirement plans under section 219, the deduction allowed under section 164(f) for one-half of self-employment taxes, or the exclusion from income of interest from Series EE U.S. Savings Bonds used to pay higher education expenses.

Special Rules for Certain Other Activities

Special rules apply to certain other activities. If you have net income (loss), deductions, or credits from any activity to which special rules apply, the partnership will identify the activity and all amounts relating to it on Schedule K-1 or on an attachment to Schedule K-1.

If you have losses with respect to partnership interests acquired and activities commenced before October 23, 1986 (pre-enactment activities) or net income subject to recharacterization under Temporary Regulations section 1.469-2T(f), report such amounts in accordance with the Instructions for Form 8582 (or Form 8810).

If you have net income (loss), deductions, or credits from any of the following activities, such amounts are treated as nonpassive and you should report them as instructed in column (c) of Schedule K-1 or in these instructions: qualified low-income housing projects; working interests in oil and gas wells; or trading personal property for the account of owners of interests in the activity.

Specific Instructions

Item B.—Item B should show your share of the partnership's nonrecourse liabilities, partnership-level qualified nonrecourse financing, and other liabilities as of the end of the partnership's tax year. If you terminated your interest in the partnership during the tax year, Item B should show the share that existed immediately before the total disposition. A partner's "other liability" is any partnership liability for which a partner is personally liable.

Use the total of the three amounts for computing the adjusted basis of your partnership interest.

Generally, you may use only the amounts shown next to "Qualified nonrecourse financing" and "Other" to compute your amount at risk. Do not include any amounts that are not at risk if such amounts are included in either of these categories.

If your partnership is engaged in two or more different types of activities subject to the at-risk provisions, or a combination of at-risk activities and any other activity, the partnership should give you a statement showing your share of nonrecourse liabilities, partnership-level qualified nonrecourse financing, and other liabilities for each activity.

The at-risk rules also apply to real property, except for real property (other than mineral property) placed in service by the taxpayer before 1987. However, there is an exception for "qualified nonrecourse financing" that is secured by real property used in an activity of holding real property. You are considered at risk for qualified nonrecourse amounts.

Qualified nonrecourse financing generally includes financing for which no one is personally liable for repayment that is secured by real property and that is loaned or guaranteed by a Federal, state, or local government or borrowed from a "qualified" person. Qualified persons include any person actively and regularly engaged in the business of lending money, such as a bank or savings and loan association. Qualified persons generally do not include related parties (unless the nonrecourse financing is commercially reasonable and on substantially the same terms as loans involving unrelated persons), the seller of the property, or a person who receives a fee for the partnership's investment in the real property. See **Pub. 925,** Passive Activity and At-Risk Rules, for more information on qualified nonrecourse financing.

Both the partnership and you must meet the qualified nonrecourse rules on this debt before you can include the amount shown next to "Qualified nonrecourse financing" in your at-risk computation.

See **Limitations on Losses, Deductions, and Credits** on page 2 for more information on the at-risk limitations.

Items G(1) and G(2).—If the partnership is a registration-required tax shelter or has invested in a registration-required tax shelter, it should have completed Items G(1) and G(2). If you claim or report income, loss, deduction, or credit from a tax shelter, you are required to attach **Form 8271,** Investor Reporting of Tax Shelter Registration Number, to your tax return. If the partnership has invested in a tax shelter, it is required to give you a copy of its Form 8271 with your Schedule K-1. You should use the information on this Form 8271 to complete Part I of your Form 8271.

If the partnership itself is a registration-required tax shelter, use the information on Schedule K-1 (name of the partnership, partnership identifying number, tax shelter registration number, type of tax shelter) to complete Part I of Form 8271. The partnership will identify the type of tax shelter in the space provided in Item G(2).

Questions H(1) and H(2).—These questions are asked to enable partners, for whom the passive activity rules of section 469 are applicable, to apply the phase-in relief provisions of those rules. See the Instructions for Form 8582 (or Form 8810) for information on the phase-in relief provisions.

Before you can apply the phase-in relief provisions, you must first determine which partnership activities (if any) are passive activities to you. See the instructions under **Passive Activity Limitations** for information on how to make this determination.

If Questions H(1) and H(2) are checked "No," phase-in relief provisions apply to all passive activity amounts from this partnership.

Question H(1).—The phase-in relief provisions do not apply to passive activity losses and credits from interests in the partnership acquired after October 22, 1986, unless the partner had a contractual obligation on that date to purchase the interest.

If Question H(1) is checked "Yes," the partnership should have attached a statement to Schedule K-1, for each activity commenced by the partnership prior to October 23, 1986, identifying your share of income, loss, deduction, and credit attributable to a new or increased ownership interest in the partnership that you acquired after October 22, 1986.

Question H(2).—If Question H(2) is checked "Yes," the partnership should have attached a statement to your Schedule K-1 identifying your share of amounts from activities commenced by the partnership after October 22, 1986. If these amounts are passive activity losses or credits to you, the phase-in relief provisions will not apply to them.

Item I.—If the box in Item I is checked, you are a partner in a publicly traded partnership and must follow the rules discussed on page 3 under **Publicly Traded Partnerships.**

Lines 1 through 21

If you are an individual and the passive activity rules do not apply to the amounts shown on your Schedule K-1, take the amounts shown in column (b) and enter them on the lines on your tax return as indicated in column (c). If the passive activity rules do apply, report the amounts shown in column (b) as indicated in the Instructions for Form 8582.

If you are not an individual, report the amounts in column (b) as instructed on your tax return.

The line numbers in column (c) are references to forms in use for calendar year 1990. If you file your tax return on a calendar year basis, but your partnership files a return for a fiscal year ending in 1991, enter these amounts on the corresponding lines of the tax forms in use for 1991.

If you have losses, deductions, or credits from a prior year that were not deductible or usable because of certain limitations, such as the at-risk rules, they may be taken into account in determining your net income, loss, or credits for this year. However, do not combine the prior-year amounts with any amounts shown on this Schedule K-1 to get a net figure to report on any supporting schedules, statements, or forms attached to your return. Instead, report the amounts on the attached schedule, statement, or form on a year-by-year basis.

If you have amounts other than those shown on Schedule K-1 to report on Schedule E (Form 1040), enter each item on a separate line of Part II of Schedule E.

The amounts shown on lines 1 through 21 reflect your share of income, loss, credits, deductions, etc., from partnership business or rental operations without reference to limitations on losses or adjustments that may be required of you because of: **(1)** the adjusted basis of your partnership interest, **(2)** the amount for which you are at risk as determined under section 465, or **(3)** the passive activity limitations of section 469. For information on these provisions, see **Limitations on Losses, Deductions, and Credits,** beginning on page 2.

Income

Line 1. Ordinary income (loss) from trade or business activities.—The amount reported for line 1 is your share of the ordinary income (loss) from the trade or business activities of the partnership. Generally, where you report this amount on Form 1040 depends on whether or not the amount is from an activity which is a passive activity to you. If you are an individual partner filing your 1990 Form 1040, find your situation in the following guide and report your line 1 income (loss) as instructed, after applying the basis and at-risk limitations on losses:

(1) Report line 1 income (loss) from partnership trade or business activities in which you materially participated on Schedule E (Form 1040), Part II, column (i) or (k).

(2) Report line 1 income (loss) from partnership trade or business activities in which you did not materially participate as follows:

(a) If income is reported on line 1, report the income on Schedule E, Part II, column (h). If, in addition to this passive activity income, you have a passive activity loss from this partnership or from any other source, also report the line 1 income following the Instructions for Form 8582.

(b) If a loss is reported on line 1, report the loss following the Instructions for Form 8582, to determine how much of the loss can be reported on Schedule E, Part II, column (g).

Line 2. Net income (loss) from rental real estate activities.—Generally, the income (loss) reported on line 2 is a passive activity amount to all partners. There is an exception, however, for losses from a qualified low-income housing project. The loss limitations of section 469 do not apply to losses incurred by qualified investors in qualified low-income housing projects. The partnership will have attached a schedule for line 2 to identify any such amounts.

If you are filing a 1990 Form 1040, use the following instructions to determine where to enter a line 2 amount:

(1) If you have a loss (other than from a qualified low-income housing project) on line 2 and you meet **all** of the following conditions, enter the loss on Schedule E (Form 1040), Part II, column (g):

(a) You determined that you actively participated in the partnership rental real estate activities. (See **Active Participation in a Rental Real Estate Activity,** on page 3.)

(b) Rental real estate activities with active participation were your only passive activities.

(c) You have no prior year unallowed losses from these activities.

(d) Your total loss from the rental real estate activities was not more than $25,000 (not more than $12,500 if married filing separately and you lived apart from your spouse all year).

(e) If you are a married person filing separately, you lived apart from your spouse all year.

(f) You have no current or prior year unallowed credits from a passive activity.

(g) Your modified adjusted gross income was not more than $100,000 (not more than $50,000 if married filing separately and you lived apart from your spouse all year).

(h) Your interest in the rental real estate activity is **not** held as a limited partner.

(2) If you have a loss on line 2 (other than from a qualified low-income housing project), and **you do not meet** all of the conditions in **(1)** above, report the loss following the Instructions for Form 8582 to determine how much of the loss can be reported on Schedule E (Form 1040), Part II, column (g).

(3) If you are a qualified investor reporting a qualified low-income housing project loss, report the loss on Schedule E, Part II, column (i).

(4) If you have income on line 2, enter the income on Schedule E, Part II, column (h). If, in addition to this passive activity income, you have a passive activity loss from this partnership or from any other source, also report the line 2 income following the Instructions for Form 8582.

Line 3. Net income (loss) from other rental activities.—The amount on line 3 is a passive activity amount for all partners.

(1) If line 3 is a loss, report the loss following the Instructions for Form 8582.

(2) If income is reported on line 3, report the income on Schedule E (Form 1040), Part II, column (h). If, in addition to this passive activity income, you have a passive activity loss from this partnership or from any other source, also report the line 3 income following the Instructions for Form 8582.

Line 4. Portfolio income (loss).—Income or loss referred to as "portfolio" income or loss in these instructions is not part of a passive activity subject to the rules of section 469. Portfolio income includes interest, dividend, annuity, and royalty income, not derived in the ordinary course of a trade or business, and gain or loss on the sale of property that produces those types of income or is held for investment. Column (c) of Schedule K-1 tells individual partners where to report this income on Form 1040.

The partnership uses line 4f to report portfolio income other than interest, dividend, royalty, and capital gain (loss) income. It will attach a statement to tell you what kind of portfolio income is reported on line 4f. An example of portfolio income that could be reported on line 4f is income from a real estate mortgage investment conduit (REMIC) in which the partnership is a residual interest holder.

If the partnership has a residual interest in a REMIC, it will report on the statement your share of REMIC taxable income (net loss) which you report on Schedule E (Form 1040), Part IV, column (d). The statement will also report your share of any "excess inclusion" which you report on Schedule E, Part IV, column (c), and your share of section 212 expenses which you report on Schedule E, Part IV, column (e). If you itemize your deductions on Schedule A (Form 1040), you may also deduct these section 212 expenses as a miscellaneous deduction subject to the 2% adjusted gross income floor on Schedule A, line 21.

Line 5. Guaranteed payments to partners.— Generally, amounts on this line are not part of a passive activity and should be reported on Schedule E (Form 1040), Part II, column (k). For example, guaranteed payments for personal services paid to any partner are not passive activity income.

Line 6. Net gain (loss) under section 1231 (other than due to casualty or theft).—If the amount on line 6 relates to a rental activity, the section 1231 gain (loss) is a passive activity amount. Likewise, if the amount relates to a trade or business activity and you did not materially participate in the trade or business activity, the section 1231 gain (loss) is a passive activity amount.

- If the amount is not a passive activity amount to you, report it on line 2, column (g) or (h), whichever is applicable, of **Form 4797,** Sales of Business Property. You do not have to complete the information called for in columns (b) through (f). Write "From Schedule K-1 (Form 1065)" across these columns.
- If gain is reported on line 6 and it is a passive activity amount to you, report the gain on line 2, column (h), of Form 4797 and be sure to see **Passive Loss Limitations** in the Instructions for Form 4797.
- If a loss is reported on line 6 and it is a passive activity amount to you, see **Passive Loss Limitations** in the Instructions for Form 4797. You will need to report the loss following the Instructions for Form 8582 to determine how much of the loss is allowed on Form 4797.

Line 7. Other income (loss).—Amounts on this line are other items of income, gain, or loss not included on lines 1 through 6. The partnership should give you a description and the amount of your share for each of these items.

Report loss items which are passive activity amounts to you following the Instructions for Form 8582.

Report income or gain items which are passive activity amounts to you as instructed below. If, in addition to this passive activity income or gain, you have passive activity losses, deductions, or credits from any source, also report the passive activity income or gain following the Instructions for Form 8582.

The instructions given below tell you where to report line 7 items if such items are not passive activity amounts.

Line 7 items may include the following:

- Partnership gains from the disposition of farm recapture property (see Form 4797) and other items to which section 1252 applies.
- Recoveries of tax benefit items (section 111). Report such amounts on the "Other income" line of Form 1040.
- Gambling gains and losses (section 165(d)).
- Any income, gain, or loss to the partnership under section 751(b). Report this amount on Form 4797, line 10.
- Specially allocated ordinary gain (loss). Report this amount on Form 4797, line 10.
- Net gain (loss) from involuntary conversions due to casualty or theft. The partnership will give you a schedule that shows the amounts to be entered on **Form 4684**, Casualties and Thefts, Section B, Part II, line 16, columns (b)(i), (b)(ii), and (c).
- Net short-term capital gain or loss and net long-term capital gain or loss from Schedule D (Form 1065) that is **not** portfolio income (e.g., gain or loss from the disposition of nondepreciable personal property used in a trade or business activity of the partnership). Report a net short-term capital gain or loss on Schedule D (Form 1040), line 5, column (f) or (g), and a net long-term capital gain or loss on Schedule D (Form 1040), line 12, column (f) or (g).

Deductions

Line 8. Charitable contributions.—The partnership will give you a schedule that shows which contributions were subject to the 50%, 30%, and 20% limitations. For further information, see the Form 1040 Instructions.

If contributions of property other than cash are made and if the claimed deduction for one item or group of similar items of property exceeds $5,000, the partnership is required to give you a copy of **Form 8283,** Noncash Charitable Contributions, to attach to your tax return. Do not deduct the amount shown on this form. Instead, deduct the amount shown on line 8 of your Schedule K-1 (Form 1065).

If the partnership provides you with information that the contribution was property other than cash and does not give you a Form 8283, see the Instructions for Form 8283 for filing requirements. A Form 8283 does not need to be filed unless the total claimed deduction for all contributed items of property exceeds $500.

Charitable contribution deductions are not taken into account in figuring your passive activity loss for the year. Do not enter them on Form 8582.

Line 9. Section 179 expense deduction.—Use this amount and other information provided by the partnership, along with the total cost of section 179 property placed in service during the year from other sources, to complete Part I of **Form 4562,** Depreciation and Amortization. Part I of Form 4562 is used to figure your allowable section 179 expense deduction from all sources. Report the amount on line 12 of Form 4562 allocable to a passive activity from the partnership following the Instructions for Form 8582. If the amount is not a passive activity deduction, report it on Schedule E (Form 1040), Part II, column (j).

Line 10. Deductions related to portfolio income.—Amounts entered on this line are deductions that are clearly and directly allocable to portfolio income (other than investment interest expense and section 212 expenses from a REMIC). Generally, you should enter line 10 amounts on Schedule A (Form 1040), line 21. See the Instructions for Schedule A, lines 20 through 25, for more information. These deductions are not taken into account in figuring your passive activity loss for the year. Do not enter them on Form 8582.

Line 11. Other deductions.—Amounts on this line are deductions not included on lines 8, 9, 10, and 17e, such as:

- Itemized deductions (Form 1040 filers enter on Schedule A (Form 1040)).

Note: *If there was a gain (loss) from a casualty or theft to property not used in a trade or business or for income-producing purposes, you will be notified by the partnership. You will have to complete your own Form 4684.*

- Any penalty on early withdrawal of savings.
- Soil and water conservation expenditures (section 175).
- Expenditures for the removal of architectural and transportation barriers to the elderly and disabled that the partnership elected to treat as a current expense (section 190).
- Any amounts paid during the tax year for insurance which constitutes medical care for a partner, a partner's spouse, and a partner's dependents. Under the provisions of section 162(l), a partner may be allowed a deduction up to 25% of such amounts. The deduction is claimed on line 26 of Form 1040.
- Payments on behalf of a partner to an IRA, Keogh, or a Simplified Employee Pension (SEP) plan. See Form 1040 Instructions for lines 24a and 24b to figure your IRA deduction. Payments made to a Keogh or SEP plan will be entered on Form 1040, line 27. If the payments to a Keogh plan were to a defined benefit plan, the partnership should give you a statement showing the amount of the benefit accrued for the tax year.
- Interest expense allocated to debt-financed distributions. The manner in which you report such interest expense depends on your use of the distributed debt proceeds. See Notice 89-35, 1989-1 C.B. 675, for details.

The partnership should give you a description and the amount of your share for each of these items.

Investment Interest

If the partnership paid or accrued interest on debts properly allocable to investment property, the amount of interest you are allowed to deduct may be limited.

For more information and the special provisions that apply to investment interest expense, see **Form 4952**, Investment Interest Expense Deduction, and **Pub. 550,** Investment Income and Expenses.

Line 12a. Interest expense on investment debts.—Enter this amount on Form 4952 along with your investment interest expense from other sources to determine how much of your total investment interest is deductible.

Lines 12b(1) and (2). Investment income and investment expenses.—Use the amounts on these lines to determine the amount to enter on Form 4952.

Caution: *The amounts shown on lines 12b(1) and (2) include only investment income and expenses included on lines 4 and 10 of this Schedule K-1. The partnership should attach a schedule which shows the amount of any investment income and expenses included on any other lines of this Schedule K-1. Use these amounts to adjust lines 12b(1) and 12b(2) to determine your total investment income and total investment expenses from this partnership. Combine these totals with investment income and expenses from all other sources to determine the amount to enter on Form 4952.*

Credits

Caution: *If you have credits that are passive activity credits to you, you must complete Form 8582-CR (or Form 8810 for corporations) in addition to the credit forms referenced below. See the Instructions for Form 8582-CR (or Form 8810) for more information.*

Also, if you are entitled to claim more than one general business credit (i.e., investment credit, jobs credit, credit for alcohol used as fuel, research credit, and the low-income housing credit), you must complete ***Form 3800,*** *General Business Credit, in addition to the credit forms referenced below. If you have more than one credit, see the instructions for Form 3800 for more information.*

Line 13a. Credit for income tax withheld.—Include the amount the partnership reports to you in the total that you enter on line 55, page 2, Form 1040. Be sure to check the box on line 55 and write "Form K-1" on the dotted line next to the check box.

Line 13b. Low-income housing credit.—Your share of the partnership's low-income housing credit is shown on line 13b. Any allowable credit is entered on **Form 8586,** Low-Income Housing Credit.

The partnership will report separately on line 13b(1) that portion of the low-income housing credit for property placed in service before 1990 with respect to which section 42(j)(5) applies. All other low-income housing credits for property placed in service before 1990 will be reported on line 13b(2). Line 13b(3) will report the low-income housing credit for property placed in service after 1989 with respect to which section 42(j)(5) applies. All other low-income housing credits for property placed in service after 1989 will be reported on line 13b(4).

You must keep a separate record of the amount of low-income housing credit from each of these sources so that you will be able to correctly compute any recapture of low-income housing credit that may result from the disposition of all or part of your partnership interest. For more information, see the Instructions for Form 8586.

Caution: *You cannot claim the low-income housing credit on any qualified low-income housing project for which any person was allowed any benefit under section 502 of the Tax Reform Act of 1986.*

Line 13c. Qualified rehabilitation expenditures related to rental real estate activities.—The partnership should identify your share of the partnership's rehabilitation expenditures that are related to each rental real estate activity. Enter the expenditures on the appropriate line of **Form 3468**, Investment Credit, to figure your allowable investment credit.

Line 13d. Credits related to rental real estate activities (other than credits shown on lines 13b and 13c).—The partnership will identify the type of credit and any other information you need to compute credits related to rental real estate activities (other than the low-income housing credit and qualified rehabilitation expenditures).

Line 13e. Credits related to other rental activities.—The partnership will identify the type of credit and any other information you need to compute credits related to rental activities other than rental real estate activities.

Line 14. Other credits. —The partnership will identify the type of credit and any other information you need to compute credits related to a trade or business activity. Property qualifying for the regular or business energy investment credit (other than from cooperatives) will be reported to you on line 21.

Credits that may be reported on line 13d, 13e, or 14 (depending on the type of activity they relate to) include the following:

- Nonconventional source fuel credit.
- Unused credits from cooperatives.
- The credit for increasing research activities and orphan drug credit (enter these credits on **Form 6765**, Credit for Increasing Research Activities).
- Jobs credit. Complete **Form 5884,** Jobs Credit, and attach it to your return. See Form 5884 for definitions, special rules, and limitations.
- Credit for alcohol used as fuel. Complete **Form 6478,** Credit for Alcohol Used as Fuel, and attach it to your return.
- Disabled access credit. Complete **Form 8826**, Disabled Access Credit, and attach it to your return.

Note: *The passive activity limitations of section 469 may limit the amount of credits on lines 13b, 13c, 13d, 13e, and 14 that you may take. Lines 13b, 13c, 13d, and 13e credits are related to the rental activities of the partnership and are passive activity credits to all partners. Line 14 credits are related to the trade or business activities of the partnership and are passive activity credits to all partners who did not materially participate in the trade or business activity. In general, except to the extent phase-in relief is available, credits from passive activities are limited to the tax attributable to passive activities. If question H(1) or H(2) is checked "No," the partnership will provide you with information regarding activities for which the phase-in relief is available.*

However, partners who actively participated in the rental real estate activity may be able to use line 13d credits against tax on other income. The amount of these credits so usable is limited to their deduction equivalent up to $25,000 (net of losses from rental real estate activities deductible against up to $25,000 of other income).

The credits on lines 13b and 13c may be taken against tax on other income, subject to the same $25,000 limitation. Line 13e credits are limited to tax attributable to passive activities. The $25,000 deduction equivalent does not apply to line 13e and line 14 credits.

Self-Employment

Lines 15a, 15b, and 15c.—If you and your spouse are both partners, each of you must complete and file your own **Schedule SE (Form 1040)**, Social Security Self-Employment Tax, to report your partnership earnings (loss) from self-employment.

Line 15a. Net earnings (loss) from self-employment.—Before entering this amount on Schedule SE (Form 1040), you must adjust it by any section 179 expense deduction claimed, unreimbursed partnership expenses claimed, and depletion claimed on oil and gas properties.

Note: *Do not reduce net earnings from self-employment by any separately stated deduction for health insurance expenses allowable under section 162(l).*

If the amount on this line is a loss, enter only the deductible amount on Schedule SE (Form 1040). See **Limitations on Losses, Deductions, and Credits** on page 2.

If your partnership is an options dealer or a commodities dealer, see section 1402(i).

If your partnership is an investment club, see Revenue Ruling 75-525, 1975-2 C.B. 350.

Line 15b. Gross farming or fishing income.—If you are an individual partner, enter the amount from this line on Schedule E (Form 1040), Part V, line 41. You may also use this amount to figure self-employment income under the optional method on Schedule SE (Form 1040), Section B, Part II.

Line 15c. Gross nonfarm income.—If you are an individual partner, use this amount to figure self-employment income under the optional method on Schedule SE (Form 1040), Section B, Part II.

Adjustments and Tax Preference Items

Use the information reported on lines 16a through 16f (as well as your adjustments and tax preference items from other sources) to prepare your **Form 6251**, Alternative Minimum Tax—Individuals, **Form 4626**, Alternative Minimum Tax—Corporations, or **Form 8656,** Alternative Minimum Tax—Fiduciaries.

Lines 16e(1) and 16e(2). Gross income from, and deductions allocable to, oil, gas, and geothermal properties.—The amounts reported on these lines include only the gross income from, and deductions allocable to, oil, gas, and geothermal properties that are included on line 1 of Schedule K-1.The partnership should have attached a schedule that shows any income from or deductions allocable to such properties that are included on lines 2 through 11 and line 21 of Schedule K-1. Use the amounts reported on lines 16e(1) and 16e(2) and the amounts on the attached schedule to help you determine the net amount to enter on line 5g of Form 6251.

Line 16f. Other adjustments and tax preference items.—Enter the information on the schedule attached by the partnership for line 16f on the applicable lines of Form 6251.

Foreign Taxes

Lines 17a through 17g.—Use the information on lines 17a through 17g, and on any attached schedules, to figure your foreign tax credit. For more information see **Form 1116**, Foreign Tax Credit—Individual, Fiduciary, or Nonresident Alien Individual, and the related instructions; **Form 1118**, Foreign Tax Credit—Corporations, and the related instructions; and **Pub. 514**, Foreign Tax Credit for Individuals.

Other

Lines 18a and 18b.—The partnership will show on line 18a the total qualified expenditures to which an election under section 59(e) may apply. It will identify the type of expenditure on line 18b. If there is more than one type of expenditure, the amount of each type will be listed on an attachment. Generally, section 59(e) allows each partner to elect to deduct certain expenses ratably over the number of years in the applicable period rather than deduct the full amount in the current year. Under the election, you may deduct ratably over a 3-year period circulation expenditures. Research and experimental expenditures and mining exploration and development costs qualify for a writeoff period of 10 years. Intangible drilling and development costs may be deducted over a 60-month period, beginning with the month in which such costs were paid or incurred. If you make this election, these items are not treated as adjustments or tax preference items for purposes of the alternative minimum tax. Make the election on Form 4562.

Because each partner decides whether to make the election under section 59(e), the partnership cannot provide you with the amount of the adjustment or tax preference item related to the expenses listed on line 18a. You must decide both how to claim the expenses on your return and compute the resulting adjustment or tax preference item.

Recapture of Tax Credits

Lines 19a and 19b. Recapture of low-income housing credit.—A section 42(j)(5) partnership will report recapture of a low-income housing credit on line 19a. All other partnerships will report recapture of a low-income housing credit on line 19b. You must keep a separate record of recapture from each of these sources so that you will be able to correctly compute any recapture of low-income housing credit that may result from the disposition of all or part of your partnership interest. For more information, see **Form 8611**, Recapture of Low-Income Housing Credit.

Line 20. Investment credit properties subject to recapture.—When investment credit property is disposed of or ceases to be qualifying property or there is a decrease in the percentage of business use before the end of the recapture period or the useful life used to figure the original credit, you may have to recapture (pay back) the investment credit taken in prior years. Use the information on line 20 to figure your recapture tax on **Form 4255**, Recapture of Investment Credit. See the Form 3468 on which you took the original credit for other information you need to complete Form 4255.

You may also need Form 4255 if you disposed of more than one-third of your interest in a partnership.

Line 21.—Amounts included on the statement for this line are not included elsewhere such as:

a. Taxes paid on undistributed capital gains by a regulated investment company. (Form 1040 filers enter your share of these taxes on line 61, and add the words "Form 1065.")

b. Number of gallons of each fuel used during the tax year and the appropriate tax rate for each type of use identified on **Form 4136**, Credit for Federal Tax on Fuels, and in the related instructions. Also your share of the credit allowed for qualified diesel-powered highway vehicles. Use this information to complete Form 4136.

c. Your share of gross income from the property, share of production for the tax year, etc., needed to figure your depletion deduction for oil and gas wells. The partnership should also allocate to you a share of the adjusted basis of each partnership oil or gas property. See Pub. 535 for how to figure your depletion deduction.

d. Tax-exempt interest income earned by the partnership. You must report on your return, as an item of information, the amount of tax-exempt interest received or accrued during the year. Individual partners should report this amount on line 8b of Form 1040.

e. Recapture of the section 179 expense deduction. If the recapture was caused by a disposition of the property, include the amount on Form 4797, line 16.

The amount to be recaptured will be limited to the amount you deducted in earlier years.

f. Any items you need to determine the basis of your partnership interest for purposes of section 704(d) because Item K on Schedule K-1 is not completed; or any items (other than those shown in Item B) you need to figure your amount at risk.

g. Any information or statements you need to comply with section 6111 (regarding tax shelters) or section 6662(d)(2)(B)(ii) (regarding adequate disclosure of items that may cause an understatement of income tax on your return).

h. Farm production expenses. You may be eligible to elect to deduct these expenses currently or capitalize them under section 263A. See **Pub. 225,** Farmer's Tax Guide, and Temporary Regulations section 1.263A-1T(c).

i. Any information you need to compute the interest due under section 453(l)(3) with respect to the disposition of certain timeshares and residential lots on the installment method. If you are an individual, report the interest on Form 1040, line 54. Write "453(l)(3)" and the amount of the interest on the dotted line to the left of line 54.

j. Any information you need to compute the interest due under section 453A(c) with respect to certain installment sales. If you are an individual, report the interest on Form 1040, line 54. Write "453A(c)" and the amount of the interest on the dotted line to the left of line 54.

k. Any information you need to compute the interest due or to be refunded under the look-back method of section 460(b)(3) on certain long-term contracts. Use **Form 8697,** Interest Computation Under the Look-Back Method for Completed Long-Term Contracts, to report any such interest.

l. Any information you need relating to interest expense that you are required to capitalize under section 263A for production expenditures. See Notice 88-99, 1988-2 C.B. 422, for more information.

m. Any information you need to compute unrelated business taxable income under section 512(a)(1) (but excluding any modifications required by paragraphs (8) through (15) of section 512 (b)) for a partner that is a tax-exempt organization.

Note: *A partner is required to notify the partnership of its tax-exempt status.*

n. Your share of the partnership's energy property qualifying for the credit and any regular investment credit property that qualifies for the credit. Generally, you can claim a tax credit based on these amounts by filing Form 3468.

o. Any other information you may need to file your return not shown elsewhere on Schedule K-1.

The partnership should give you a description and the amount of your share for each of these items.

Form **4562**

Department of the Treasury
Internal Revenue Service

Depreciation and Amortization
(Including Information on Listed Property)

▶ See separate instructions. ▶ Attach this form to your return.

OMB No. 1545-0172

1990

Attachment Sequence No. 67

Name(s) shown on return | Identifying number

Business or activity to which this form relates

Part I **Election To Expense Certain Tangible Property (Section 179)** (**Note:** *If you have any "Listed Property," also complete Part V.*)

1 Maximum dollar limitation (see instructions)	1	$10,000
2 Total cost of section 179 property placed in service during the tax year (see instructions)	2	
3 Threshold cost of section 179 property before reduction in limitation	3	$200,000
4 Reduction in limitation—Subtract line 3 from line 2, but do not enter less than -0-	4	
5 Dollar limitation for tax year—Subtract line 4 from line 1, but do not enter less than -0-	5	

(a) Description of property	(b) Cost	(c) Elected cost
6		

7 Listed property—Enter amount from line 26	7	
8 Total elected cost of section 179 property—Add amounts in column (c), lines 6 and 7	8	
9 Tentative deduction—Enter the lesser of line 5 or line 8	9	
10 Carryover of disallowed deduction from 1989 (see instructions)	10	
11 Taxable income limitation—Enter the lesser of taxable income or line 5 (see instructions)	11	
12 Section 179 expense deduction—Add lines 9 and 10, but do not enter more than line 11	12	
13 Carryover of disallowed deduction to 1991—Add lines 9 and 10, less line 12 ▶	13	

Note: *Do not use Part II or Part III below for automobiles, certain other vehicles, cellular telephones, computers, or property used for entertainment, recreation, or amusement (listed property). Instead, use Part V for listed property.*

Part II **MACRS Depreciation For Assets Placed in Service ONLY During Your 1990 Tax Year (Do Not Include Listed Property)**

(a) Classification of property	(b) Mo. and yr. placed in service	(c) Basis for depreciation (Business use only—see instructions)	(d) Recovery period	(e) Convention	(f) Method	(g) Depreciation deduction
14 General Depreciation System (GDS) (see instructions):						
a 3-year property						
b 5-year property						
c 7-year property						
d 10-year property						
e 15-year property						
f 20-year property						
g Residential rental property			27.5 yrs.	MM	S/L	
			27.5 yrs.	MM	S/L	
h Nonresidential real property			31.5 yrs.	MM	S/L	
			31.5 yrs.	MM	S/L	
15 Alternative Depreciation System (ADS) (see instructions):						
a Class life					S/L	
b 12-year			12 yrs.		S/L	
c 40-year			40 yrs.	MM	S/L	

Part III **Other Depreciation (Do Not Include Listed Property)**

16 GDS and ADS deductions for assets placed in service in tax years beginning before 1990 (see instructions)	16	
17 Property subject to section 168(f)(1) election (see instructions)	17	
18 ACRS and other depreciation (see instructions)	18	

Part IV **Summary**

19 Listed property—Enter amount from line 25	19	
20 Total—Add deductions on line 12, lines 14 and 15 in column (g), and lines 16 through 19. Enter here and on the appropriate lines of your return. (Partnerships and S corporations—see instructions)	20	
21 For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs (see instructions)	21	

Part V **Listed Property.—Automobiles, Certain Other Vehicles, Cellular Telephones, Computers, and Property Used for Entertainment, Recreation, or Amusement**

If you are using the standard mileage rate or deducting vehicle lease expense, complete columns (a) through (c) of Section A, all of Section B, and Section C if applicable.

Section A.—Depreciation (Caution: *See instructions for limitations for automobiles.*)

22a Do you have evidence to support the business use claimed? ☐ **Yes** ☐ **No** | **22b** If "Yes," is the evidence written? ☐ **Yes** ☐ **No**

(a) Type of property (list vehicles first)	(b) Date placed in service	(c) Business use percentage	(d) Cost or other basis	(e) Basis for depreciation (business use only)	(f) Recovery period	(g) Method/ Convention	(h) Depreciation deduction	(i) Elected section 179 cost
23 *Property used more than 50% in a trade or business:*								
		%						
		%						
		%						
24 *Property used 50% or less in a trade or business:*								
		%				S/L–		
		%				S/L–		
		%				S/L–		
25 Add amounts in column (h). Enter the total here and on line 19, page 1							**25**	
26 Add amounts in column (i). Enter the total here and on line 7, page 1								**26**

Section B.—Information Regarding Use of Vehicles—*If you deduct expenses for vehicles:*

- *Always complete this section for vehicles used by a sole proprietor, partner, or other "more than 5% owner," or related person.*
- *If you provided vehicles to your employees, first answer the questions in Section C to see if you meet an exception to completing this section for those vehicles.*

	(a) Vehicle 1		(b) Vehicle 2		(c) Vehicle 3		(d) Vehicle 4		(e) Vehicle 5		(f) Vehicle 6	
27 Total business miles driven during the year (DO NOT include commuting miles)												
28 Total commuting miles driven during the year												
29 Total other personal (noncommuting) miles driven												
30 Total miles driven during the year—Add lines 27 through 29												
	Yes	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**
31 Was the vehicle available for personal use during off-duty hours?												
32 Was the vehicle used primarily by a more than 5% owner or related person?												
33 Is another vehicle available for personal use?												

Section C.—Questions for Employers Who Provide Vehicles for Use by Their Employees

(Answer these questions to determine if you meet an exception to completing Section B. **Note:** *Section B must always be completed for vehicles used by sole proprietors, partners, or other more than 5% owners or related persons.)*

	Yes	**No**
34 Do you maintain a written policy statement that prohibits all personal use of vehicles, including commuting, by your employees?		
35 Do you maintain a written policy statement that prohibits personal use of vehicles, except commuting, by your employees? (See instructions for vehicles used by corporate officers, directors, or 1% or more owners.)		
36 Do you treat all use of vehicles by employees as personal use?		
37 Do you provide more than five vehicles to your employees and retain the information received from your employees concerning the use of the vehicles?		
38 Do you meet the requirements concerning qualified automobile demonstration use (see instructions)?		
Note: *If your answer to 34, 35, 36, 37, or 38 is "Yes," you need not complete Section B for the covered vehicles.*		

Part VI **Amortization**

(a) Description of costs	(b) Date amortization begins	(c) Amortizable amount	(d) Code section	(e) Amortization period or percentage	(f) Amortization for this year
39 Amortization of costs that begins during your 1990 tax year:					
40 Amortization of costs that began before 1990.				**40**	
41 Total. Enter here and on "Other Deductions" or "Other Expenses" line of your return				**41**	

Form **4562**

Department of the Treasury
Internal Revenue Service

Depreciation and Amortization
(Including Information on Listed Property)

▶ See separate instructions. ▶ Attach this form to your return.

OMB No. 1545-0172

1990

Attachment Sequence No. **67**

Name(s) shown on return | Identifying number

Business or activity to which this form relates

Part I **Election To Expense Certain Tangible Property (Section 179)** (**Note:** *If you have any "Listed Property," also complete Part V.*)

1 Maximum dollar limitation (see instructions)	1	$10,000
2 Total cost of section 179 property placed in service during the tax year (see instructions)	2	
3 Threshold cost of section 179 property before reduction in limitation	3	$200,000
4 Reduction in limitation—Subtract line 3 from line 2, but do not enter less than -0-	4	
5 Dollar limitation for tax year—Subtract line 4 from line 1, but do not enter less than -0-	5	

(a) Description of property	(b) Cost	(c) Elected cost
6		

7 Listed property—Enter amount from line 26	7		
8 Total elected cost of section 179 property—Add amounts in column (c), lines 6 and 7		8	
9 Tentative deduction—Enter the lesser of line 5 or line 8		9	
10 Carryover of disallowed deduction from 1989 (see instructions)		10	
11 Taxable income limitation—Enter the lesser of taxable income or line 5 (see instructions)		11	
12 Section 179 expense deduction—Add lines 9 and 10, but do not enter more than line 11		12	
13 Carryover of disallowed deduction to 1991—Add lines 9 and 10, less line 12 ▶	13		

Note: *Do not use Part II or Part III below for automobiles, certain other vehicles, cellular telephones, computers, or property used for entertainment, recreation, or amusement (listed property). Instead, use Part V for listed property.*

Part II **MACRS Depreciation For Assets Placed in Service ONLY During Your 1990 Tax Year (Do Not Include Listed Property)**

(a) Classification of property	(b) Mo. and yr. placed in service	(c) Basis for depreciation (Business use only—see instructions)	(d) Recovery period	(e) Convention	(f) Method	(g) Depreciation deduction
14 General Depreciation System (GDS) (see instructions):						
a 3-year property						
b 5-year property						
c 7-year property						
d 10-year property						
e 15-year property						
f 20-year property						
g Residential rental property			27.5 yrs.	MM	S/L	
			27.5 yrs.	MM	S/L	
h Nonresidential real property			31.5 yrs.	MM	S/L	
			31.5 yrs.	MM	S/L	
15 Alternative Depreciation System (ADS) (see instructions):						
a Class life					S/L	
b 12-year			12 yrs.		S/L	
c 40-year			40 yrs.	MM	S/L	

Part III **Other Depreciation (Do Not Include Listed Property)**

16 GDS and ADS deductions for assets placed in service in tax years beginning before 1990 (see instructions)	16	
17 Property subject to section 168(f)(1) election (see instructions)	17	
18 ACRS and other depreciation (see instructions)	18	

Part IV **Summary**

19 Listed property—Enter amount from line 25	19	
20 Total—Add deductions on line 12, lines 14 and 15 in column (g), and lines 16 through 19. Enter here and on the appropriate lines of your return. (Partnerships and S corporations—see instructions)	20	
21 For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs (see instructions)	21	

Part V **Listed Property.—Automobiles, Certain Other Vehicles, Cellular Telephones, Computers, and Property Used for Entertainment, Recreation, or Amusement**

If you are using the standard mileage rate or deducting vehicle lease expense, complete columns (a) through (c) of Section A, all of Section B, and Section C if applicable.

Section A.—Depreciation **(Caution:** *See instructions for limitations for automobiles.*)

22a Do you have evidence to support the business use claimed? ☐ **Yes** ☐ **No** **22b** If "Yes," is the evidence written? ☐ **Yes** ☐ **No**

(a) Type of property (list vehicles first)	(b) Date placed in service	(c) Business use percentage	(d) Cost or other basis	(e) Basis for depreciation (business use only)	(f) Recovery period	(g) Method/ Convention	(h) Depreciation deduction	(i) Elected section 179 cost
23 *Property used more than 50% in a trade or business:*								
		%						
		%						
		%						
24 *Property used 50% or less in a trade or business:*								
		%				S/L–		
		%				S/L–		
		%				S/L–		
25 Add amounts in column (h). Enter the total here and on line 19, page 1							**25**	
26 Add amounts in column (i). Enter the total here and on line 7, page 1								**26**

Section B.—Information Regarding Use of Vehicles—*If you deduct expenses for vehicles:*

- *Always complete this section for vehicles used by a sole proprietor, partner, or other "more than 5% owner," or related person.*
- *If you provided vehicles to your employees, first answer the questions in Section C to see if you meet an exception to completing this section for those vehicles.*

	(a) Vehicle 1		(b) Vehicle 2		(c) Vehicle 3		(d) Vehicle 4		(e) Vehicle 5		(f) Vehicle 6	
27 Total business miles driven during the year (DO NOT include commuting miles)												
28 Total commuting miles driven during the year												
29 Total other personal (noncommuting) miles driven												
30 Total miles driven during the year—Add lines 27 through 29												
	Yes	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**
31 Was the vehicle available for personal use during off-duty hours?												
32 Was the vehicle used primarily by a more than 5% owner or related person?												
33 Is another vehicle available for personal use?												

Section C.—Questions for Employers Who Provide Vehicles for Use by Their Employees

(Answer these questions to determine if you meet an exception to completing Section B. **Note:** *Section B must always be completed for vehicles used by sole proprietors, partners, or other more than 5% owners or related persons.)*

	Yes	**No**
34 Do you maintain a written policy statement that prohibits all personal use of vehicles, including commuting, by your employees?		
35 Do you maintain a written policy statement that prohibits personal use of vehicles, except commuting, by your employees? (See instructions for vehicles used by corporate officers, directors, or 1% or more owners.)		
36 Do you treat all use of vehicles by employees as personal use?		
37 Do you provide more than five vehicles to your employees and retain the information received from your employees concerning the use of the vehicles?		
38 Do you meet the requirements concerning qualified automobile demonstration use (see instructions)?		

Note: *If your answer to 34, 35, 36, 37, or 38 is "Yes," you need not complete Section B for the covered vehicles.*

Part VI **Amortization**

(a) Description of costs	(b) Date amortization begins	(c) Amortizable amount	(d) Code section	(e) Amortization period or percentage	(f) Amortization for this year
39 Amortization of costs that begins during your 1990 tax year:					
40 Amortization of costs that began before 1990				**40**	
41 Total. Enter here and on "Other Deductions" or "Other Expenses" line of your return				**41**	

Form **8825**

Department of the Treasury
Internal Revenue Service

Rental Real Estate Income and Expenses of a Partnership or an S Corporation

▶ See instructions on back.
▶ Attach to Form 1065 or Form 1120S.

OMB No. 1545-1186

1990

Name

Employer identification number

1 Show the kind and location of each property. See page 2 for additional properties.

A .....

B .....

C .....

D .....

		Properties			
Rental Real Estate Income		A	B	C	D
2 Gross rents	2				
Rental Real Estate Expenses					
3 Advertising	3				
4 Auto and travel	4				
5 Cleaning and maintenance	5				
6 Commissions	6				
7 Insurance	7				
8 Legal and other professional fees	8				
9 Interest	9				
10 Repairs	10				
11 Taxes	11				
12 Utilities	12				
13 Wages and salaries	13				
14 Depreciation (see instructions)	14				
15 Other (list) ▶	15				
16 Total expenses for each property. Add lines 3 through 15	16				

17 Total gross rents. Add gross rents from line 2, columns A through H	17	
18 Total expenses. Add total expenses from line 16, columns A through H	18	( )
19 Net gain (loss) from Form 4797, Part II, line 18, from the disposition of property from rental real estate activities	19	
20a Net income (loss) from rental real estate activities from partnerships and fiduciaries (from Schedule K-1)	20a	
b Enter name of partnership or fiduciary from which net income or loss is shown on line 20a ▶		
c Enter employer identification number of partnership or fiduciary from which net income or loss is shown on line 20a ▶		
21 Net income (loss) from rental real estate activities. Combine lines 17 through 20a. Enter result here and on Schedule K, line 2	21	

For Paperwork Reduction Act Notice, see back of form.

Form **8825** (1990)

1 Show the kind and location of each property.

E .....

F .....

G .....

H .....

Rental Real Estate Income		Properties E	F	G	H
2 Gross rents	2				
Rental Real Estate Expenses					
3 Advertising	3				
4 Auto and travel	4				
5 Cleaning and maintenance	5				
6 Commissions	6				
7 Insurance	7				
8 Legal and other professional fees	8				
9 Interest	9				
10 Repairs	10				
11 Taxes	11				
12 Utilities	12				
13 Wages and salaries	13				
14 Depreciation (see instructions)	14				
15 Other (list) ►	15				
16 Total expenses for each property. Add lines 3 through 15	16				

Instructions

(Section references are to the Internal Revenue Code.)

Paperwork Reduction Act Notice.—We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us this information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping . . . . . 6 hrs., 28 min.
Learning about the law or the form . . . . . 22 min.
Preparing the form . . . . 1 hr., 25 min.
Copying, assembling, and sending the form to IRS . . . . . 16 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to both IRS and the Office of Management and Budget at the addresses listed in the instructions for the tax return with which this form is filed.

Purpose of Form.—Partnerships and S corporations use Form 8825 to report income and deductible expenses from rental real estate activities, including net income (loss) from rental real estate activities that flow through from partnerships or fiduciaries. A rental real estate activity includes one or more "rental real estate undertakings" (or, in some cases, parts of such undertakings). **A rental real estate undertaking** is a rental undertaking in which at least 85% of the unadjusted basis of the property made available for use by customers is real property. Before completing this form, be sure to read **Passive Activity Limitations** in the instructions for Form 1065 or Form 1120S, especially for the definitions of "undertaking" and "rental activity" and how to identify the activities of the partnership or S corporation.

Lines 1 through 21.—Form 8825 provides space for up to eight properties. If there are more than eight properties, complete and attach as many Forms 8825 as are needed to list the additional properties.

The number of columns to be used for reporting income and expenses on this form is not always the same as the number of rental real estate activities the partnership or S corporation has for purposes of the passive activity limitations. For example, a partnership owns two apartment buildings, each located in a different city. For purposes of the passive activity limitations, the partnership elected to combine both buildings into a single activity. Although the partnership has only one rental real estate activity, it must report the income and deductions for each building in separate columns.

However, if the partnership or S corporation has more than one rental real estate activity, attach a separate statement to Schedule K and each Schedule K-1 that identifies the net income (loss) for each separate activity. See **Passive Activity Reporting Requirements** in the instructions for Form 1065 or Form 1120S for additional information that must be provided for each activity.

Complete lines 1 through 16 for each property. But complete lines 17 through 21 on only one Form 8825. The figures on lines 17 and 18 should be the combined totals of all forms.

Do not report the following types of income or expenses on Form 8825:

- Trade or business activity income or expenses.
- Portfolio income or deductions.
- Rental activity income or expenses, other than rental real estate activity income or expenses.
- Charitable contributions.
- Any other items of income or expense that must be reported separately to the partners or shareholders.

Line 1.—Show the kind of property rented out (e.g., "apartment building"). Give the street address, city or town, and state. You do not have to give the ZIP code.

Line 14.—The partnership or S corporation may claim a depreciation deduction each year for rental property (except for land, which is not depreciable). If the partnership or S corporation placed property in service during the current tax year or claimed depreciation on any car or other listed property, complete and attach **Form 4562,** Depreciation and Amortization. See Form 4562 and the related instructions or **Publication 534,** Depreciation, to figure the depreciation deduction. Do not include any section 179 expense deduction on this line. This amount must be passed through separately to the partners or shareholders.

Lines 20b and 20c.—If the amount shown on line 20a is from more than one partnership or fiduciary, provide the information for lines 20b and 20c on an attached schedule and write "See attached schedule" on lines 20b and 20c.

Form **8825**

Department of the Treasury
Internal Revenue Service

Rental Real Estate Income and Expenses of a Partnership or an S Corporation

▶ See instructions on back.
▶ Attach to Form 1065 or Form 1120S.

OMB No. 1545-1186

1990

Name | Employer identification number

1 Show the kind and location of each property. See page 2 for additional properties.

A .....

B .....

C .....

D .....

Rental Real Estate Income		Properties A	B	C	D
2 Gross rents	2				
Rental Real Estate Expenses					
3 Advertising	3				
4 Auto and travel	4				
5 Cleaning and maintenance	5				
6 Commissions	6				
7 Insurance	7				
8 Legal and other professional fees	8				
9 Interest	9				
10 Repairs	10				
11 Taxes	11				
12 Utilities	12				
13 Wages and salaries	13				
14 Depreciation (see instructions)	14				
15 Other (list) ▶	15				
16 Total expenses for each property. Add lines 3 through 15	16				

17	Total gross rents. Add gross rents from line 2, columns A through H	17	
18	Total expenses. Add total expenses from line 16, columns A through H	18	( )
19	Net gain (loss) from Form 4797, Part II, line 18, from the disposition of property from rental real estate activities	19	
20a	Net income (loss) from rental real estate activities from partnerships and fiduciaries (from Schedule K-1)	20a	
b	Enter name of partnership or fiduciary from which net income or loss is shown on line 20a ▶		
c	Enter employer identification number of partnership or fiduciary from which net income or loss is shown on line 20a ▶		
21	Net income (loss) from rental real estate activities. Combine lines 17 through 20a. Enter result here and on Schedule K, line 2	21	

1 Show the kind and location of each property.

E

F

G

H

Rental Real Estate Income		Properties E	F	G	H
2 Gross rents	2				
Rental Real Estate Expenses					
3 Advertising	3				
4 Auto and travel	4				
5 Cleaning and maintenance	5				
6 Commissions	6				
7 Insurance	7				
8 Legal and other professional fees	8				
9 Interest	9				
10 Repairs	10				
11 Taxes	11				
12 Utilities	12				
13 Wages and salaries	13				
14 Depreciation (see instructions)	14				
15 Other (list) ▶	15				
16 Total expenses for each property. Add lines 3 through 15	16				

Instructions

(Section references are to the Internal Revenue Code.)

Paperwork Reduction Act Notice.—We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us this information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping . . . . . 6 hrs., 28 min.
Learning about the law or the form . . . . . 22 min.
Preparing the form . . . . . 1 hr., 25 min.
Copying, assembling, and sending the form to IRS . . . . . 16 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to both IRS and the Office of Management and Budget at the addresses listed in the instructions for the tax return with which this form is filed.

Purpose of Form.—Partnerships and S corporations use Form 8825 to report income and deductible expenses from rental real estate activities, including net income (loss) from rental real estate activities that flow through from partnerships or fiduciaries. A rental real estate activity includes one or more "rental real estate undertakings" (or, in some cases, parts of such undertakings). **A rental real estate undertaking** is a rental undertaking in which at least 85% of the unadjusted basis of the property made available for use by customers is real property. Before completing this form, be sure to read **Passive Activity Limitations** in the instructions for Form 1065 or Form 1120S, especially for the definitions of "undertaking" and "rental activity" and how to identify the activities of the partnership or S corporation.

Lines 1 through 21.—Form 8825 provides space for up to eight properties. If there are more than eight properties, complete and attach as many Forms 8825 as are needed to list the additional properties.

The number of columns to be used for reporting income and expenses on this form is not always the same as the number of rental real estate activities the partnership or S corporation has for purposes of the passive activity limitations. For example, a partnership owns two apartment buildings, each located in a different city. For purposes of the passive activity limitations, the partnership elected to combine both buildings into a single activity. Although the partnership has only one rental real estate activity, it must report the income and deductions for each building in separate columns.

However, if the partnership or S corporation has more than one rental real estate activity, attach a separate statement to Schedule K and each Schedule K-1 that identifies the net income (loss) for each separate activity. See **Passive Activity Reporting Requirements** in the instructions for Form 1065 or Form 1120S for additional information that must be provided for each activity.

Complete lines 1 through 16 for each property. But complete lines 17 through 21 on only one Form 8825. The figures on lines 17 and 18 should be the combined totals of all forms.

Do not report the following types of income or expenses on Form 8825:

- Trade or business activity income or expenses.
- Portfolio income or deductions.
- Rental activity income or expenses, other than rental real estate activity income or expenses.
- Charitable contributions.
- Any other items of income or expense that must be reported separately to the partners or shareholders.

Line 1.—Show the kind of property rented out (e.g., "apartment building"). Give the street address, city or town, and state. You do not have to give the ZIP code.

Line 14.—The partnership or S corporation may claim a depreciation deduction each year for rental property (except for land, which is not depreciable). If the partnership or S corporation placed property in service during the current tax year or claimed depreciation on any car or other listed property, complete and attach **Form 4562,** Depreciation and Amortization. See Form 4562 and the related instructions or **Publication 534,** Depreciation, to figure the depreciation deduction. Do not include any section 179 expense deduction on this line. This amount must be passed through separately to the partners or shareholders.

Lines 20b and 20c.—If the amount shown on line 20a is from more than one partnership or fiduciary, provide the information for lines 20b and 20c on an attached schedule and write "See attached schedule" on lines 20b and 20c.

and end of the tax year, instead of completing Schedule L. However, statements filed under this procedure must contain sufficient information to enable the IRS to reconstruct a balance sheet similar to that contained on Form 1065 without contacting the partnership during processing.

Line 5. Tax-exempt securities.— Include on this line:

(1) State and local government obligations, the interest on which is excludible from gross income under section 103(a), and

(2) Stock in a mutual fund or other regulated investment company that distributed exempt-interest dividends during the tax year of the partnership.

Line 18. All nonrecourse loans.— Nonrecourse loans are those liabilities of the partnership for which none of the partners have any personal liability.

See Revenue Ruling 84-5, 1984-1 C.B. 32, for information on partnerships that purchase timeshare units in a vacation home with a nonrecourse obligation before deducting any interest that accrues on the obligation.

See Revenue Ruling 84-118, 1984-2 C.B. 120, for information on a limited partner's basis when there is a partially nonrecourse note.

A limited partner's basis is not increased by a share of the limited partnership's liability when the general partner has personally guaranteed a nonrecourse loan to the partnership.

Schedule M of Form 1065 and Item K of Schedule K-1

Reconciliation of Partners' Capital Accounts

Note: *Domestic partnerships with 10 or fewer partners may not have to complete Schedule M or Item K of Schedule K-1. See the instructions for Question N for the specific requirements to qualify for this exception.*

Show what caused the changes in the partners' capital accounts during the tax year.

The beginning and ending capital accounts should agree with the partnership's books and records and the balance sheet amounts. Attach a statement explaining any differences.

Also, the amounts on Schedule M should equal the total of the amounts reported in Item K of all the partners' Schedules K-1.

Include in column (d) income reported on the partnership's books but not included in column (c). Also use column (d) to make additions to the capital account for differences between tax accounting and book accounting. Examples of amounts to be included in column (d) include tax-exempt interest, other tax-exempt income, and allowable deductions used by the partnership to figure the amount shown in column (c) but not charged against book income this year.

Include in column (e) losses and deductions reported on the partnership's books but not included in column (c). Also use column (e) to make reductions to the capital account for differences between tax accounting and book accounting. Examples of amounts to be included in column (e) include investment interest expense, deductions related to portfolio income, expenses connected with the production of tax-exempt income, charitable contributions, and income included in column (c) but not recorded in the partnership's books this year.

Include in column (f) withdrawals from inventory for personal use.

Note: *If Schedule M and Item K of Schedule K-1 are not required, see the instructions for Schedule K-1, line 21, item f.*

Designation of Tax Matters Partner (TMP)

If the partnership is subject to the rules for consolidated audit proceedings in sections 6221 through 6233, the partnership may designate a partner as the TMP for the tax year for which the return is filed by completing the **Designation of Tax Matters Partner** section on page 2 of Form 1065. See the instructions for Question M, consolidated audit procedures, to determine if the partnership is subject to these rules. The designated TMP must be a general partner and, in most cases, must also be a U.S. person. For details, see Temporary Regulations section 301.6231(a)(7)-1T.

Schedules K and K-1

Partners' Shares of Income, Credits, Deductions, Etc.

Purpose of Schedules

Schedule K (page 3 of Form 1065) is a summary schedule of all the partners' shares of the partnership's income, credits, deductions, etc. **Schedule K-1 (Form 1065)** shows each partner's separate share. One copy of each K-1 must be attached to the Form 1065 filed with the Internal Revenue Service. One copy is kept with a copy of the partnership return as a part of the partnership's records. One copy must be furnished to each partner. If a partnership interest is held by a nominee on behalf of another person, the partnership may be required to furnish Schedule K-1 to the nominee. See Temporary Regulations section 1.6031(b)-1T and 1.6031(c)-1T for more information.

Be sure to give each partner a copy of either the Partner's Instructions for Schedule K-1 (Form 1065) or specific instructions for each item reported on the partner's Schedule K-1 (Form 1065).

Note: *Instructions that apply only to line items reported on Schedule K-1 may be prepared and given to each partner in lieu of the instructions printed by IRS.*

General Instructions

Although the partnership is not subject to income tax, the partners are liable for tax on their shares of the partnership income, whether or not distributed, and must include their shares on their tax returns.

Schedules K and K-1 have the same line numbers for lines 1 through 18b.

Substitute Forms

You do not need IRS approval to use a substitute Schedule K-1 if it is an exact facsimile of the IRS schedule, or if it contains only those lines the taxpayer is required to use, and the lines have the same numbers and titles and are in the same order as on the comparable IRS Schedule K-1. In either case, your substitute schedule must include the OMB number and the Partner's Instructions for Schedule K-1 (Form 1065) or other prepared specific instructions.

Other substitute Schedules K-1 require approval. You may apply for approval of a substitute form by writing to: Internal Revenue Service, Attention: Substitute Forms Program Coordinator, R:R:R, 1111 Constitution Avenue, NW, Washington, DC 20224.

Each taxpayer's information must be on a separate sheet of paper. Therefore, all continuously printed substitutes must be separated before they are filed with the Service.

You may be subject to a penalty if you file Schedules K-1 that do not conform to the specifications of Revenue Procedure 90-8, 1990-1 C.B. 434.

How Income Is Shared Among Partners

Income (loss) is allocated to a partner only for the part of the year in which that person is a member of the partnership. The partnership will either allocate on a daily basis or divide the partnership year into segments and allocate income, loss, or special items in each segment among the persons who were partners during that segment. Partnerships that report their income on the cash basis must allocate interest expense, taxes, and any payment for services or for the use of property on a daily basis if there is any change in any partner's interest during the year. (See section 706 for more information and for information on the tax consequences of the termination of a partner's interest.)

Allocate shares of income, gain, loss, deduction, or credit among the partners according to the partnership agreement for sharing income or loss generally. If the partners agree, specific items may be allocated in a ratio different from the ratio for sharing income or loss generally. For instance, if the net income exclusive of specially allocated items is divided evenly among three partners but some special items are allocated 50% to one, 30% to another, and 20% to the third partner, report the specially allocated items on the appropriate line of the applicable partner's Schedule K-1 and the total on the appropriate line of Schedule K, instead of on the numbered lines on page 1 of Form 1065 or Schedules A or D.

If the partnership agreement does not provide for the partner's share of income,

gain, loss, deduction, or credit, or if the allocation under the agreement does not have substantial economic effect, the partner's share is determined according to the partner's interest in the partnership. Regulations under section 704(b) provide rules relating to the substantial economic effect test and to the determination of a partner's interest in the partnership.

Regulations section 1.704-1(b)(2)(ii)(b)(1) provides that an allocation of income, gain, loss, or deduction to a partner will generally have economic effect only if, throughout the full term of the partnership, the partnership agreement provides for the determination and maintenance of the partners' capital accounts in accordance with the rules under Regulations section 1.704-1(b)(2)(iv). See Regulations section 1.704-1(b)(2)(iv)(r) and Notice 88-87, 1988-2 C.B. 411, for limited safe harbor rules for partnerships operating before May 1, 1986, that did not properly maintain their capital accounts.

Note: *If a partner's interest changed during the year, see section 706(d) before determining each partner's distributive share of any item of income, gain, loss, deduction, etc.*

Specific Instructions

Schedule K Only

Schedule K must be completed by all partnerships. In order for partners to comply with the requirements of section 469, trade or business activity income (loss), rental activity income (loss), and portfolio income must be considered separately by the partner. Rental activity income (loss) and portfolio income are not reported on page 1 of Form 1065. These amounts are not combined with trade or business activity income (loss). Schedule K is used to report the totals of these (and other) amounts.

Schedule K-1 Only

Prepare and give a Schedule K-1 to each person who was a partner in the partnership at any time during the year. **Schedule K-1 must be provided to each partner on or before the day on which the partnership return is required to be filed.**

Note: *Generally, under section 6031(c) any person who holds an interest in a partnership as a nominee for another person is required to furnish to the partnership the name, address, etc., of the other person (beneficial holder of the interest).*

If a husband and wife each had an interest in the partnership, prepare a separate Schedule K-1 for each of them.

If a husband and wife held an interest together, prepare one Schedule K-1 if the two of them are considered to be one partner.

On each Schedule K-1, enter the names, addresses, and identifying numbers of the partner and partnership and the partner's distributive share of each item.

For an individual partner enter the partner's social security number. For all other partners enter the partner's employer identification number. (However, if a partner is an individual retirement arrangement (IRA), enter the identifying number of the custodian of the IRA. Do not enter the social security number of the person for whom the IRA is maintained.)

Note: *Space has been provided on line 21 of Schedule K-1 for you to provide information to the partners. This space may be used in lieu of attachments.*

Question A

Question A must be answered for all partners. If a partner holds interests as both a general and limited partner, attach a schedule for each activity which shows the amounts allocable to the partner's interest as a limited partner.

Item B

Partner's Share of Liabilities

Enter each partner's share of nonrecourse liabilities, partnership-level qualified nonrecourse financing, and other liabilities. **Nonrecourse liabilities** are those liabilities of the partnership for which none of the partners has any personal liability. Do not include partnership-level **qualified nonrecourse financing** (defined below) on the line for nonrecourse liabilities. Nonrecourse liabilities include all nonrecourse debt on real property placed in service before 1987.

If the partner terminated his or her interest in the partnership during the year, enter the share that existed immediately before the total disposition. In all other cases, enter it as of the end of the year.

If the partnership is engaged in two or more different types of at-risk activities, or a combination of at-risk activities and any other activity, attach a statement showing the partner's share of nonrecourse liabilities, partnership-level qualified nonrecourse financing, and other liabilities for **each** activity. See sections 465(c)(2) and (3) and Pub. 925 to determine if the partnership is engaged in more than one at-risk activity.

If a partnership is engaged in an activity subject to the limitations of section 465(c)(1) (i.e., films or video tapes, leasing section 1245 property, farming, or oil and gas property), give each partner his or her share of the total pre-1976 losses from that activity for which there existed a corresponding amount of nonrecourse liability at the end of each year in which the losses occurred. See **Form 6198,** At-Risk Limitations, and related instructions for more information.

The at-risk rules also apply to real property, except for real property (other than mineral property) placed in service by the taxpayer before 1987. However, there is an exception for "qualified nonrecourse financing" secured by real property used in the activity of holding real property. The partner is considered at-risk for qualified nonrecourse amounts.

Qualified nonrecourse financing generally includes financing for which no one is personally liable for repayment that is secured by real property used in the activity and that is loaned or guaranteed by a Federal, state, or local government or that is borrowed from a "qualified" person. Qualified persons include any person actively and regularly engaged in the business of lending money, such as a bank or savings and loan association. Qualified persons generally do not include related parties (unless the nonrecourse financing is commercially reasonable and on substantially the same terms as loans involving unrelated persons), the seller of the property, or a person who receives a fee for the partnership's investment in the real property. See section 465 and Pub. 925 for more information on qualified nonrecourse financing.

The partner as well as the partnership must meet the qualified nonrecourse rules. Therefore, the partnership must enter on an attached statement any other information the partner needs to determine if the qualified nonrecourse rules are also met at the partner level.

Question C

What Type of Entity Is This Partner?

State on this line whether the partner is an individual, a corporation, a fiduciary, a partnership, an exempt organization, or a nominee (custodian). If the partner is a nominee, use one of the following codes to indicate the type of entity the nominee represents: I—Individual; C—Corporation; F—Fiduciary; P—Partnership; E—Exempt Organization; or IRA—Individual Retirement Arrangement.

Question D

Domestic/Foreign Partner

Check the appropriate box to indicate whether the partner is a domestic or a foreign partner.

Item E

Partner's Profit, Loss, and Capital Sharing Percentages

Enter in Item E, column (ii), the appropriate percentages as of the end of the year. However, if a partner's interest terminated during the year, enter in column (i) the percentages that existed immediately before the termination. When the profit or loss sharing percentage has changed during the year, show the percentage before the change in column (i) and the end of year percentage in column (ii). If there are multiple changes in the profit and loss sharing percentage during the year, attach a statement giving the date and percentage before each change. "Ownership of capital" means the portion of the capital that the partner would receive if the partnership was liquidated at the end of the year by the distribution of undivided interests in partnership assets and liabilities.

Items G(1) and (2)

Tax Shelter Information

If the partnership is a registration-required tax shelter, it must enter its tax shelter registration number in G(1) and identify the type of shelter in G(2). If the

partnership invested in a registration-required shelter, the partnership must also attach a copy of its Form 8271 to Schedule K-1. See Form 8271 for a list of the types of tax shelters and for more information.

Questions H(1) and (2)

These questions must be answered for all partners. The information is needed by partners to apply the phase-in relief provisions of section 469. Interests in passive activities acquired by the partner on or before October 22, 1986, are eligible for phase-in relief of the passive loss rules. Interests acquired after October 22, 1986, do not qualify for phase-in relief (unless there was a contractual obligation on October 22, 1986, to purchase the interest).

Therefore, if a partner first acquires an interest in the partnership after October 22, 1986, or a partner's ownership interest is increased after October 22, 1986, the portion of his or her interest attributable to that new interest or to the increase in the interest does not qualify for phase-in relief. For example, if after that date a partner increases his or her ownership interest from 25% to 50%, only the losses and credits attributable to the 25% interest held prior to October 23, 1986, will qualify for the phase-in relief.

Generally, to qualify for phase-in relief, the interest held by the partner must be in an activity which had commenced by October 22, 1986. If the partnership commences a new activity after that date, the new activity does not qualify for phase-in relief (unless on or before August 16, 1986, the partnership entered into a binding contract to acquire assets used to conduct the activity, or construction of the property used in the activity began).

Question H(1).—Answer "Yes" to Question H(1) if a partner's percentage of ownership interest in the partnership changed after October 22, 1986. Phase-in relief applies only with respect to the ownership interest held by the partner on October 22, 1986, and at all times thereafter. For example, if a partner reduced his or her ownership interest after October 22, 1986, from 20% to 10%, and subsequently purchased additional interests restoring his or her share to 20%, then Question H(1) should be answered "Yes," and only the 10% interest held throughout qualifies for phase-in relief.

If Question H(1) is answered "Yes," attach a statement to Schedule K-1, for Question H(1), that identifies for each activity started or acquired by the partnership **before** October 23, 1986, the amount of income, loss, deduction, and credit from each activity that is attributable to the partner's increase in ownership interest after October 22, 1986.

Question H(2).—Answer "Yes" to Question H(2) if the partnership started or acquired a new activity after October 22, 1986 (unless the binding contract or construction exceptions of section 469 apply). If the question is answered "Yes," attach a statement to Schedule K-1. Identify the income (loss), credit, etc., attributable to the activity and state that the activity was commenced after October 22, 1986. Losses and credits from such activities do not qualify for phase-in relief.

Item K

Reconciliation of Partner's Capital Account

See the instructions for Question N and Schedule M of Form 1065.

Schedules K and K-1 (unless otherwise noted)

Special Allocations

An item is specially allocated if it is allocated to a partner in a ratio that is different from the ratio for sharing income or loss generally.

Specially allocated items should be reported on the applicable lines of the partner's Schedule K-1. Report the total amount on the applicable line of Schedule K. For example, specially allocated long-term capital gain is entered on line 4e of the partner's Schedule K-1, and the total is entered on line 4e of Schedule K, along with any net long-term capital gain (or loss) from line 9 of Schedule D (Form 1065).

Income (Loss)

Line 1

Ordinary Income (Loss) From Trade or Business Activities

Enter the amount from line 21, page 1. Enter the income or loss without reference to the basis of the partners' interests in the partnership, the partners' at-risk limitations, or the passive activity limitations. These limitations, if applicable, are determined at the partner level.

If the partnership has more than one trade or business activity, identify on an attachment to Schedule K-1 the amount from each separate activity. See **Passive Activity Reporting Requirements** beginning on page 8.

Line 1 should not include rental activity income (loss) or portfolio income (loss).

Line 2

Net Income (Loss) From Rental Real Estate Activities

Enter the net income or loss from rental real estate activities of the partnership from **Form 8825,** Rental Real Estate Income and Expenses of a Partnership or an S Corporation. If the partnership has more than one rental real estate activity, identify on an attachment to Schedule K-1 the amount attributable to each activity.

If a loss from a qualified low-income housing project is reported on line 2, identify this loss on a statement attached to the Schedule K-1 of each partner who is a qualified investor in the project. Any loss sustained by a qualified investor in a qualified low-income housing project for any tax year in the relief period is not subject to the passive activity loss limitations under section 502 of the Tax Reform Act of 1986. See Act section 502 for definitions and other information on qualified low-income housing projects.

Line 3

Net Income (Loss) From Other Rental Activities

On Schedule K, line 3a, enter gross income from rental activities other than rental real estate activities. See page 6 of these instructions, section 469, and Pub. 925 for the definition of rental activities. Include on line 3a, the gain (loss) from line 18 of Form 4797 that is attributable to the sale, exchange, or involuntary conversion of an asset used in a rental activity other than a rental real estate activity.

On line 3b of Schedule K enter the deductible expenses of the activity. Attach a schedule of these expenses to Form 1065.

Enter the net income (loss) on line 3c of Schedule K. Enter each partner's share on line 3 of Schedule K-1.

If the partnership has more than one rental activity reported on line 3, identify on an attachment to Schedule K-1 the amount from each activity.

Lines 4a through 4f

Portfolio Income (Loss)

Enter portfolio income (loss) on lines 4a through 4f.

See page 7 of these instructions for a definition of portfolio income. Do not reduce portfolio income by deductions allocable to it. Portfolio deductions (other than interest expense) are reported on line 10 of Schedules K and K-1. Interest expense allocable to portfolio income is generally investment interest expense and must be reported on line 12a of Schedules K and K-1.

Lines 4a and 4b.—Enter only taxable interest and dividends on these lines.

Taxable interest is interest from all sources except interest exempt from tax, and interest on tax-free covenant bonds.

Caution: *Be sure to give each payer of interest and dividend income the partnership's correct identification number. Otherwise, the payer may withhold 20% of the interest or dividend income. The partnership may also be subject to penalties.*

Lines 4d and 4e.—Enter on line 4d of Schedule K the amount on line 4 of Schedule D (Form 1065) plus any short-term capital gain (loss) that is specially allocated to partners. Report each partner's share on line 4d of Schedule K-1.

The amount reported for line 4e of Schedule K is the amount on line 9 of Schedule D (Form 1065) plus any long-term capital gain (loss) that is specially allocated to partners. Report each partner's share on line 4e of Schedule K-1.

Caution: *If any short-term or long-term capital gain or loss is from the disposition of nondepreciable personal property used in a trade or business, it may not be treated as portfolio income. Report such*

gain or loss on line 7 of Schedules K and K-1.

Line 4f.—Report and identify other portfolio income or loss on an attachment for line 4f. For example, income reported to the partnership from a real estate mortgage investment conduit (REMIC), in which the partnership is a residual interest holder, would be reported on an attachment for line 4f.

If the partnership holds a residual interest in a REMIC, report on the attachment for line 4f the partner's share of: **(1)** taxable income (net loss) from the REMIC (line 1b of Schedule Q (Form 1066)), **(2)** "excess inclusion" (line 2c of Schedules Q (Form 1066)), and **(3)** section 212 expenses (line 3b of Schedules Q (Form 1066)). Do not report these section 212 expenses on line 10 of Schedules K and K-1. Because Schedule Q (Form 1066) is a quarterly statement, the partnership must follow the Schedule Q instructions to figure the amounts to report to the partner for the partnership's tax year.

Line 5

Guaranteed Payments to Partners

Enter: **(1)** guaranteed payments to partners for salaries and interest deducted by the partnership and reported on Form 1065, page 1, line 10; and **(2)** guaranteed payments to partners the partnership is required to capitalize. (See the instructions for Form 1065, line 10.)

Generally, amounts reported on line 5 are not considered to be related to a passive activity. For example, guaranteed payments for personal services paid to a partner would not be passive activity income. Likewise, interest paid to any partner is not passive activity income.

Line 6

Net Gain (Loss) Under Section 1231 (other than due to casualty or theft)

Enter on line 6 the amount shown on line 7 of Form 4797. Do not include specially allocated ordinary gains and losses or net gains or losses from involuntary conversions due to casualties or thefts on this line; report them on line 7. If the partnership has more than one activity, attach a statement to Schedule K-1 that identifies which activity the section 1231 gain (loss) relates to.

Line 7

Other Income (Loss)

Use line 7 to report other items of income, gain, or loss not included on lines 1 through 6. If the partnership has more than one activity, identify on an attachment the amount and the activity to which each amount relates.

Items to be reported on line 7 include:

- Gains from the disposition of farm recapture property (see Form 4797) and other items to which section 1252 applies.
- Gains from the disposition of an interest in oil, gas, geothermal, or other mineral properties (section 1254).
- Recoveries of tax benefit items (section 111).
- Gambling gains and losses (subject to the limitations in section 165(d)).
- Any income, gain, or loss to the partnership under section 751(b).
- Specially allocated ordinary gain (loss).
- Net gain (loss) from involuntary conversions due to casualty or theft. The amount for this line is shown on **Form 4684,** Casualties and Thefts, Section B, line 20a, 20b, or 21.

Each partner's share must be entered on Schedule K-1. Give each partner a schedule that shows the amounts to be reported on the partner's Form 4684, Section B, line 16, columns (b)(i), (b)(ii), and (c).

Note: *If there was a gain (loss) from a casualty or theft to property not used in a trade or business or for income-producing purposes, notify the partner. The partnership should not complete Form 4684 for this type of casualty or theft. Instead, each partner will complete his or her own Form 4684.*

Deductions

Line 8

Charitable Contributions

Enter the total amount of charitable contributions made by the partnership during its tax year on Schedule K. Enter each partner's distributive share on Schedule K-1. Attach an itemized list to each schedule that shows the amount subject to the 50%, 30%, and 20% limitations.

If the partnership made a qualified conservation contribution under section 170(h), include the fair market value of the underlying property before and after the donation and describe the conservation purpose furthered by the donation. Give a copy of this information to each partner.

If the partnership contributed property and the aggregate amount of the claimed value exceeds $500, **Form 8283,** Noncash Charitable Contributions, must be completed and attached to Form 1065. The partnership must give a copy of its Form 8283 to every partner if the value of an item or group of similar items of contributed property exceeds $5,000 even though the amount allocated to each partner is $5,000 or less. For property valued at $5,000 or less, the partnership does not have to furnish the partners with its Form 8283. Instead, it should pass through each partner's share of the fair market value of contributed property so the partners will be able to complete their own Forms 8283. See the Instructions for Form 8283 for additional information.

Line 9

Section 179 Expense Deduction

A partnership may elect to expense part of the cost of certain tangible property the partnership purchased this year for use in its trade or business or rental activities. See Pub. 534 for a definition of what kind of property qualifies for the section 179 deduction.

Complete Part I of Form 4562 to figure the partnership's section 179 expense deduction. The partnership does not deduct the expense itself but passes the expense through to its partners. Attach Form 4562 to Form 1065 and show the total section 179 expense on Schedule K, line 9. Report each partner's allocable share on Schedule K-1, line 9. Line 9 of Schedule K-1 should not be completed for any partner that is an estate or trust.

The partnership must specify on an attachment to Schedule K-1 the items of section 179 property it elects to treat as an expense, the portion of the cost of each item treated as an expense, the portion of the cost of each item treated as a carryover amount, and the partner's allocable share of the partnership's section 179 expense deduction for the tax year.

See the instructions for line 21 of Schedule K-1, item e, for any recapture of a section 179 amount.

Note: *Generally, the amount of section 179 property the partnership may elect to expense is limited to $10,000. The $10,000 limit is reduced by the amount of section 179 property placed in service during the tax year that exceeds $200,000. The section 179 deduction for a partnership is further limited to the partnership's aggregate taxable income (gross income minus deductions, computed without regard to the section 179 deduction) from the active conduct of any trade or business during the tax year. Any amount which (but for the taxable income limitation) would have been allowed as a deduction is carried forward to a future year (section 179(b)(3)(B)).*

Line 10

Deductions Related to Portfolio Income

Enter on this line and attach an itemized list of the allowable deductions that are clearly and directly allocable to portfolio income (other than interest expense and section 212 expenses from a REMIC).

Generally, interest expense related to portfolio income is investment interest expense and is reported as a separate item on line 12a of Schedules K and K-1, instead of line 10. Section 212 expenses from the partnership's interest in a REMIC are reported on an attachment for line 4f of Schedules K and K-1.

No deduction is allowable under section 212 for expenses allocable to a convention, seminar, or similar meeting. Generally, expenses related to portfolio income are miscellaneous itemized deductions to the partner and are subject to the 2% floor of section 67 at the partner level.

Line 11

Other Deductions

Note: *Do not include in the amounts shown on line 11 qualified expenditures to which an election under section 59(e) may apply. Instead, report these amounts on line 18a.*

Use line 11 to report deductions not included on lines 8, 9, 10, and 17e. On an attachment identify the amount and the activity (if the partnership has more than one activity) to which the amount relates.

Items to be reported on line 11 include:

a. Amounts paid by the partnership that would be allowed as itemized deductions on any of the partners' income tax returns if they were paid directly by a partner for the same purpose. However, do not enter expenses related to portfolio income or investment interest expense on this line.

If there was a loss from an involuntary conversion due to casualty or theft of income-producing property, include in the total amount for this line the relevant amount from Form 4684, Section B, line 14.

b. Any penalty on early withdrawal of savings.

c. Soil and water conservation expenditures (section 175).

d. Expenditures for the removal of architectural and transportation barriers to the elderly and handicapped and which the partnership has elected to treat as a current expense (section 190).

e. Any amounts paid during the tax year for insurance which constitutes medical care for a partner, a partner's spouse, and a partner's dependents. Under the provisions of section 162(l), a partner may be allowed a deduction up to 25% of such amounts.

f. Payments for a partner to an IRA, Keogh, or SEP plan.

If there is a defined benefit plan (Keogh), attach to the Schedule K-1 for each partner a statement showing the amount of benefit accrued for the tax year.

g. Interest expense allocated to debt-financed distributions. See Notice 89-35 for more information.

Investment Interest

Lines 12a through 12b(2)

Lines 12a through 12b(2) must be completed for all partners.

Line 12a. Interest Expense on Investment Debts.—Include on this line interest paid or accrued to purchase or carry property held for investment. Property held for investment includes property that produces portfolio income (interest, dividends, annuities, royalties, etc.). Interest expense allocable to portfolio income should be reported on line 12a of Schedules K and K-1 (rather than line 10 of Schedules K and K-1).

Property held for investment includes a partner's interest in a trade or business activity that is not a passive activity to the partner and in which the partner does not materially participate. An example would be a partner's working interest in oil and gas property (where the partner's interest is not limited) if the partner does not materially participate in the oil and gas activity.

Investment interest does not include interest expense allocable to a passive activity.

The amount on line 12a will be deducted (after applying the investment interest expense limitations of section 163(d)) by individual partners on their Form 1040.

For more information, see **Form 4952,** Investment Interest Expense Deduction.

Lines 12b(1) and 12b(2). Investment Income and Expenses.—Enter on line 12b(1) only the investment income included on line 4 of Schedules K and K-1. Enter on line 12b(2) only the investment expense included on line 10 of Schedules K and K-1.

If there are items of investment income or expense included in the amounts that are required to be passed through separately to the partner on Schedule K-1 (items other than the amounts included in lines 4 and 10 of Schedule K-1), give each partner a schedule identifying these amounts.

Investment income includes gross income from property held for investment, gain from the disposition of property held for investment, and other amounts that are gross portfolio income. Generally, investment income and investment expenses do not include any income or expenses from a passive activity. See Temporary Regulations section 1.469-2T(f)(10) for exceptions.

Property subject to a net lease is not treated as investment property because it is subject to the passive loss rules. Do not reduce investment income by losses from passive activities.

Investment expenses are deductible expenses (other than interest) directly connected with the production of investment income. See the instructions for Form 4952 for more information on investment income and expenses.

Credits

Lines 13b, 13c, 13d, 13e, and 14.—Lines 13b, 13c, 13d, and 13e are intended to help partners apply the passive activity limitations of section 469. These lines relate to rental activities. Use line 14 to report credits related to trade or business activities.

Line 13b. Low-Income Housing Credit.—Section 42 provides a credit that may be claimed by owners of low-income residential rental buildings. If the partners are eligible to take the low-income housing credit, complete and attach **Form 8586,** Low-Income Housing Credit; **Form 8609,** Low-Income Housing Credit Allocation Certification; and **Schedule A (Form 8609),** Annual Statement, to Form 1065.

Note: *No low-income housing credit can be taken with respect to any building for which any person has been allowed any benefit under 1986 Act section 502 (relating to the transitional exception rule for low-income housing).*

Report on line 13b(1) the total low-income housing credit for property placed in service before 1990 with respect to which a partnership is to be treated under section 42(j)(5) as the taxpayer to which the low-income housing credit was allowed. Report any other low-income housing credit for property placed in service before 1990 on line 13b(2). On lines 13b(3) and (4) report the low-income housing credit for property placed in service after 1989.

Line 13c. Qualified Rehabilitation Expenditures Related to Rental Real Estate Activities.—Enter total qualified rehabilitation expenditures related to rental real estate activities of the partnership, and for line 13c of Schedule K, complete the applicable lines of **Form 3468,** Investment Credit, that apply to qualified rehabilitation expenditures for property related to rental real estate activities of the partnership for which income or loss is reported on line 2 of Schedule K. See Form 3468 for details on qualified rehabilitation expenditures. Attach Form 3468 to Form 1065.

For line 13c of Schedule K-1, enter each partner's distributive share of the expenditures. On the dotted line to the left of the entry space for line 13c, enter the line number of Form 3468 on which the partner should report the expenditures. If there is more than one type of expenditure, or the expenditures are from more than one line 2 activity, report this information separately for each expenditure or activity on an attachment to Schedules K and K-1.

Note: *Qualified rehabilitation expenditures for property not related to rental real estate activities must be listed separately on line 21 of Schedule K-1.*

Lines 13d, 13e, and 14.—Enter the type of credit on the dotted line in column (a) (or in the margin) and the amount in column (b). If there is more than one type of credit or the credit is from more than one activity, report this information separately for each credit or activity on an attachment to Schedules K and K-1.

Line 13d. Credits (other than credits shown on lines 13b and 13c) Related to Rental Real Estate Activities.—Report any information that the partners need to figure credits related to a rental real estate activity, other than the low-income housing credit and qualified rehabilitation expenditures.

Line 13e. Credits Related to Other Rental Activities.—Use this line to report information that the partners need to figure credits related to a rental activity other than a rental real estate activity.

Line 14. Other Credits.—Enter each partner's allocable share of any credit that is related to a trade or business activity. The credits to be reported on line 14 and other required attachments are as follows:

- *Jobs Credit.* Complete and attach Form 5884 to Form 1065. This credit is apportioned among the partners according to their interest in the partnership at the time the wages on which the credit is computed were paid or accrued.
- *Credit for Alcohol Used as Fuel.* Complete and attach Form 6478 to Form 1065. This credit is apportioned to persons who were partners on the last day of the partnership's tax year. The credit must be included as income on page 1, line 7, of Form 1065. See section 40(f)

for an election the partnership can make to not have the credit apply.

- *Nonconventional Source Fuel Credit.* The credit is figured at the partnership level and then is apportioned to persons who were partners in the partnership on the last day of the partnership's tax year. Attach a separate schedule to the return to show the computation of the credit. See section 29 for more information.
- *Unused Credits From Cooperatives.* The unused credits are apportioned to persons who were partners in the partnership on the last day of the partnership's tax year.
- *Orphan Drug Credit and Credit for Increasing Research Activities.* Complete and attach **Form 6765,** Credit for Increasing Research Activities.
- *Disabled Access Credit.* Complete and attach **Form 8826,** Disabled Access Credit.

Note: *See the instructions for line 21 of Schedule K-1 to report the partnership's investment in property qualifying for the regular or business energy investment credit (other than from cooperatives).*

Self-Employment

Note: *If the partnership is an options dealer or a commodities dealer, see section 1402(i) before completing lines 15a, b, and c, to determine the amount of any adjustment that may have to be made to the amounts shown on the Worksheet for Figuring Net Earnings (Loss) From Self-Employment. If the partnership is engaged solely in the operation of a group investment program, earnings from the operation are not self-employment earnings for either general or limited partners.*

Worksheet Instructions

Line 1b.—In addition to the net income (loss) from Schedule K, line 3c, include on line 1b any part of the net income (loss) from rental real estate activities from Schedule K, line 2, that is from: **(1)** rentals received as a real estate dealer, or **(2)** rentals for which services were rendered to the occupants (other than those usually or customarily rendered for the rental of space for occupancy only). The supplying of maid service, for example, is such a service; but the furnishing of heat and light, the cleaning of public entrances, exits, stairways and lobbies, trash collection, etc., are not considered services rendered to the occupants.

Lines 1d, 4b, and 6b.—Allocate the amounts on these lines in the same way Form 1065, page 1, line 21, is allocated to these particular partners.

Line 2.—Include in the amount on line 2 any guaranteed payments to partners reported on Schedules K and K-1, line 5. Also include other ordinary income and expense items (other than expense items subject to separate limitations at the partner level, such as the section 179 deduction) reported on Schedules K and K-1 that are used to compute self-employment earnings under section 1402.

Note: *Amounts paid for health insurance costs of self-employed individuals are not deductible in computing net income from self-employment.*

Line 3.—For purposes of this line only, do not enter an amount in parentheses.

Line 15a

Net Earnings (Loss) From Self-Employment

Schedule K.—Enter on line 15a the amount from line 9 of the worksheet.

Schedule K-1.—Do not complete this line for any partner that is an estate, trust, corporation, exempt organization, or Individual Retirement Arrangement (IRA).

Enter on line 15a of Schedule K-1 each individual general partner's share of the amount shown on line 7c of the worksheet. To figure an individual general partner's share of the amount on line 7c, multiply the amount on line 7c by the decimal amount you get when you divide that individual general partner's share of the amount shown on line 1c of the worksheet (using the corresponding amounts included on the partner's Schedule K-1) by the total of all individual general partners' shares of the amount shown on line 1c. Enter the amount shown on line 7b of the worksheet on the applicable individual general partner's Schedule K-1, line 15a. Add it to the partner's share of the amount on line 7c of the worksheet.

If a partner is both a general and a limited partner, add that partner's share of the amount on lines 7b and 7c to that partner's share of the amount on line 8 and enter the total on line 15a of that partner's Schedule K-1.

Limited partners.—A limited partner's share of partnership income (loss) shown on line 1, 2, or 3 of Schedule K-1 is not self-employment income. Limited partners may treat as self-employment income only

Worksheet for Figuring Net Earnings (Loss) From Self-Employment

1a	Ordinary income (loss) (Form 1065, page 1, line 21)	1a	
b	Net income (loss) from other rental activities (Schedule K, line 3c), and net income (loss) from **certain** rental real estate activities (see instructions)	1b	
c	Combine lines 1a and 1b	1c	
d	Part allocated to partners who are estates, trusts, corporations, exempt organizations, IRAs, or limited partners	1d	
e	Subtract line 1d from line 1c. (If line 1c is a loss, reduce line 1c by the amount on line 1d.)	1e	
2	Guaranteed payments to partners included on Schedules K-1, line 5	2	
3	Net loss from Form 4797, Part II, line 18, included on line 1c above. Enter as a positive amount	3	
4a	Total—Add lines 2 and 3	4a	
b	Part allocated to partners who are estates, trusts, corporations, exempt organizations, IRAs, or limited partners	4b	
c	Subtract line 4b from line 4a	4c	
5	Add lines 1e and 4c. (If line 1e is a loss, reduce line 1e by the amount on line 4c.)	5	
6a	Net gain from Form 4797, Part II, line 18, included on line 1c above	6a	
b	Part allocated to partners who are estates, trusts, corporations, exempt organizations, IRAs, or limited partners	6b	
c	Subtract line 6b from line 6a	6c	
7a	Subtract line 6c from line 5. (If line 5 is a loss, increase the loss on line 5 by the amount on line 6c.)	7a	
b	Guaranteed payments to individual general partners included on line 2 above. Include on line 15a of the applicable individual general partner's Schedule K-1	7b	
c	Subtract line 7b from line 7a. (If line 7a is a loss, increase the loss on line 7a by the amount on line 7b.) Include each individual general partner's share on line 15a of Schedule K-1. Add this amount to any amount from line 7b of this worksheet	7c	
8	Guaranteed payments to individual limited partners included on line 2 above. Enter here and on the applicable partner's Schedule K-1, line 15a	8	
9	Net earnings (loss) from self-employment. Add lines 7b, 7c, and 8. (If line 7c is a loss, reduce the loss on line 7c by the total of the amounts on lines 7b and 8.) Enter here and on Schedule K, line 15a	9	

guaranteed payments for services they actually rendered to, or on behalf of, the partnership to the extent that those payments are payment for those services (line 8 of the worksheet). Show only these amounts on line 15a of Schedule K-1 for a limited partner.

General partners.—General partners' net earnings (loss) from self-employment do not include:

- Dividends on any shares of stock and interest on any bonds, debentures, notes, etc., unless the dividends or interest are received in the course of a trade or business, such as a dealer in stocks or securities or interest on notes or accounts receivable.
- Rentals from real estate, except rentals received in the course of a trade or business as a real estate dealer or payments for rooms or space when significant services are provided.
- Royalty income, except royalty income received in the course of a trade or business.

See the instructions for **Schedule SE (Form 1040),** Social Security Self-Employment Tax, for more information.

Line 15b

Gross Farming or Fishing Income

Enter the gross farming or fishing income needed by an individual partner to figure net earnings from self-employment under the optional method in Section B, Part II of Schedule SE (Form 1040).

Line 15c

Gross Nonfarm Income

Enter the gross nonfarm income needed by an individual partner to figure net earnings from self-employment under the optional method in Section B, Part II of Schedule SE (Form 1040).

Adjustments and Tax Preference Items

Lines 16a through 16f

Lines 16a through 16f must be completed for all partners.

Enter items of income and deductions that are adjustments or tax preference items. See **Form 6251,** Alternative Minimum Tax—Individuals, **Form 4626,** Alternative Minimum Tax—Corporations, **Form 8656,** Alternative Minimum Tax—Fiduciaries, and **Pub. 909,** Alternative Minimum Tax for Individuals, to determine the amounts to enter and for other information.

Do not include as a tax preference item any qualified expenditures to which an election under section 59(e) may apply. Instead, report these expenditures on lines 18a and 18b. Because these expenditures are subject to an election by each partner, the partnership cannot compute the amount of any tax preference related to them.

Line 16c. Depreciation Adjustment on Property Placed in Service After 1986.—Figure the adjustment for line 16c based only on tangible property placed in service after 1986 (and tangible property placed in service after July 31, 1986, and before 1987 for which the partnership elected to use the General Depreciation System). Refigure depreciation as follows: For property other than real property and property on which the straight line method was used, use the 150% declining balance method, switching to straight line for the first tax year that method gives a better result. For property on which the straight line method was used, use the straight line method. Use the class life (instead of the recovery period) and the same conventions that you used on Form 4562. For personal property having no class life, use 12 years. For residential rental and nonresidential real property, use the straight line method over 40 years. Determine the depreciation adjustment by subtracting the recomputed depreciation from the depreciation claimed on Form 4562. If the recomputed depreciation exceeds the depreciation claimed on Form 4562, enter the difference as a negative amount. See Form 6251 for more information.

Line 16d. Depletion (Other Than Oil and Gas).—Do not include any depletion on oil and gas wells. The partners must compute both their depletion deduction and their depletion preference item separately.

In the case of mines, wells, and other natural deposits, other than oil and gas wells, enter the amount by which the deduction for depletion under section 611 (including percentage depletion for geothermal deposits) is more than the adjusted basis of such property at the end of the tax year. Figure the adjusted basis without regard to the depletion deduction for the tax year and figure the excess separately for each property.

Lines 16e(1) and 16e(2).—Enter only the income and deductions for oil, gas, and geothermal properties that are used to figure the partnership's ordinary income or loss (line 21 of Form 1065). If there are items of income or deduction for oil, gas, and geothermal properties included in the amounts required to be passed through separately to the partners on Schedule K-1 (items not reported in line 1 of Schedule K-1), give each partner a schedule identifying these amounts.

Figure the amount for lines 16e(1) and (2) separately for oil and gas properties which are not geothermal deposits and for all properties which are geothermal deposits.

Give each partner a schedule that shows the separate amounts that are included in the computation of the amounts on lines 16e(1) and (2).

Line 16e(1). Gross Income From Oil, Gas, and Geothermal Properties.—Enter the aggregate amount of gross income (within the meaning of section 613(a)) from all oil, gas, and geothermal properties that was received or accrued during the tax year and included on page 1, Form 1065.

Line 16e(2). Deductions Allocable to Oil, Gas, and Geothermal Properties.—Enter the amount of any deductions allocable to oil, gas, and geothermal properties reduced by the excess intangible drilling costs that were included on page 1, Form 1065, on properties for which the partnership made the election to expense intangible drilling costs in tax years beginning before 1983. Do not include on line 16e nonproductive well costs or the amount shown on line 16b, page 1, Form 1065. Instead, use any applicable amount on line 16c, page 1, Form 1065.

See Form 6251 for information on how to compute excess intangible drilling costs.

Line 16f. Other Adjustments and Tax Preference Items.—Attach a schedule which shows each partner's share of other items not shown on lines 16a through 16e(2) that are adjustments or tax preference items or that the partner needs to complete Form 6251, Form 4626, or Form 8656. See these forms and their instructions to determine the amount to enter.

Other adjustments or tax preference items include the following:

- Long-term contracts entered into after February 28, 1986. Except for certain home construction contracts, the taxable income from these contracts must be figured using the percentage of completion method of accounting for alternative minimum tax purposes.
- Installment sales of inventory or stock in trade after March 1, 1986. Generally, the installment method may not be used for these sales in computing alternative minimum taxable income.
- Losses from tax shelter farm activities. No loss from any tax shelter farm activity is allowed for alternative minimum tax purposes.
- Charitable contributions of appreciated property. Generally, the deduction for charitable contributions is reduced by the difference between the fair market value and the adjusted basis of the capital gain and section 1231 property donated to a charitable organization.

Foreign Taxes

Lines 17a through 17g

Lines 17a through 17g must be completed whether or not a partner is eligible for the foreign tax credit.

In addition to the instructions below, see the following for more information:

- **Form 1116,** Foreign Tax Credit—Individual, Fiduciary, or Nonresident Alien Individual, and the related instructions.
- **Form 1118,** Foreign Tax Credit—Corporations, and the related instructions.
- **Pub. 514,** Foreign Tax Credit for Individuals.

Line 17a. Type of Income.—Enter the type of income from outside the U.S. as follows:

- Passive income
- High withholding tax interest
- Financial services income
- Shipping income
- Dividends from a DISC or former DISC
- Distributions from a foreign sales corporation (FSC) or former FSC

- Dividends from each noncontrolled section 902 corporation
- Taxable income attributable to foreign trade income (within the meaning of section 923(b))
- General limitation income—all other income from sources outside the United States (including income from sources within U.S. possessions)

If, for the country or U.S. possession shown on line 17b, the partnership had **more than one** type of income, enter **"See attached"** and attach a schedule for each type of income for lines 17c through 17g.

Line 17b. Foreign Country or U.S. Possession.—Enter the name of the foreign country or U.S. possession. If, for the type of income shown on line 17a, the partnership had income from, or paid taxes to, **more than one** foreign country or U.S. possession, enter **"See attached"** and attach a schedule for each country for lines 17a and 17c through 17g.

Line 17c. Total Gross Income From Sources Outside the U.S.—Enter in U.S. dollars the total gross income from sources outside the U.S. Attach a schedule that shows each type of income listed in the instructions for line 17a.

See section 904(d) for types of income that must be reported to partners for figuring their foreign tax credit.

Line 17d. Total Applicable Deductions and Losses.—Enter in U.S. dollars the total applicable deductions and losses. Attach a schedule that shows each type of deduction or loss as follows:

- expenses directly allocable to each type of income;
- pro rata share of all other deductions not directly allocable to specific items of income; and
- pro rata share of losses from other separate limitation categories.

Line 17e. Total Foreign Taxes.—Enter in U.S. dollars the total foreign taxes (described in section 901) that were paid or accrued by the partnership to foreign countries or U.S. possessions. Attach a schedule that shows the dates the taxes were paid or accrued, and the amount in both foreign currency and in U.S. dollars, as follows:

- taxes withheld at source on dividends;
- taxes withheld at source on rents and royalties; and
- other foreign taxes paid or accrued.

Line 17f. Reduction in Taxes Available for Credit.—Enter in U.S. dollars, the total reduction in taxes available for credit. Attach a schedule that shows separately the:

- reduction for foreign mineral income (section 901(e));
- reduction for failure to furnish returns required under section 6038;
- reduction for taxes attributable to boycott operations (section 908);
- reduction for foreign oil and gas extraction income (section 907(a)); and
- reduction for any other items (specify).

Line 17g. Other Foreign Tax Information.—Enter in U.S. dollars any items not covered on lines 17c, 17d, 17e, and 17f, such as gross income and definitely allocable deductions from sources outside the United States and for foreign branches, for corporate partners (Form 1118, Schedule F).

Other

Lines 18a and 18b.—Generally, section 59(e) allows each partner to make an election to deduct the partner's distributive share of the partnership's otherwise deductible qualified expenditures ratably over 10 years (3 years for circulation expenditures), beginning with the tax year in which the expenditures were made (or for intangible drilling and development costs, over the 60-month period beginning with the month in which such costs were paid or incurred). The term "qualified expenditures" includes only the following types of expenditures paid or incurred during the tax year: circulation expenditures, research and experimental expenditures, intangible drilling and development costs, and mining exploration and development costs. If a partner makes this election, these items are not treated as tax preference items.

Because the partners are generally allowed to make this election, the partnership cannot deduct these amounts or include them as adjustments or tax preference items on Schedule K-1. Instead, on lines 18a and 18b of Schedule K-1, the partnership passes through the information the partners need to compute their separate deductions.

Enter on line 18a the qualified expenditures paid or incurred during the tax year to which an election under section 59(e) may apply. Enter this amount for all partners whether or not any partner makes an election under section 59(e). On line 18b, enter the type of expenditures claimed on line 18a. If the expenditures are for intangible drilling and development costs, enter the month in which the expenditures were paid or incurred (after the type of expenditure on line 18b). If there is more than one type of expenditure included in the total shown on line 18a (or intangible drilling and development costs were paid or incurred for more than one month), report this information separately for each type of expenditure (or month) on an attachment to Schedules K and K-1.

Line 19 (Schedule K only).—Attach a statement to Schedule K to report the partnership's total income, expenditures, or other information for items **a** through **o** of the line 21 (Schedule K-1) instructions on page 23.

Recapture of Tax Credits

Lines 19a and 19b (Schedule K-1 only). Recapture of Low-Income Housing Credit.—If there has been a decrease in the qualified basis of a building from the prior year or if the partnership disposed of the building or of an ownership interest in it, the partnership may be required to recapture part of a credit claimed in a prior year. If recapture applies, the partnership must attach **Form 8611,** Recapture of Low-Income Housing Credit, to Form 1065.

See the instructions for Form 8611 regarding the specific information that the partnership must provide to each partner when recapture is required.

Note: *In certain instances, a transaction by a partner may result in recapture at the partner level. In such cases, the partnership will be required to provide the partner with the information that the partner needs in order to correctly compute the recapture amount.*

Report on line 19a the total low-income housing credit recapture with respect to a partnership treated under section 42(j)(5) as the taxpayer to which the low-income housing credit was allowed. Report any other low-income housing credit recapture on line 19b.

If the partnership has posted a bond as provided in section 42(j)(6) to avoid recapture, no entry should be made on line 19 of Schedule K-1.

See Form 8586, Form 8611, and section 42 for more information.

Lines 20a through 20e (Schedule K-1 only) Investment Credit Properties Subject to Recapture.—Complete line 20 when regular or energy investment credit property is disposed of, ceases to qualify, or there is a decrease in the percentage of business use before the end of the recapture period or the useful life used to figure the original credit. Lines 20a through 20e must be completed whether or not a partner is subject to the recapture of investment credit. For more information, see **Form 4255,** Recapture of Investment Credit.

Line 20b. Analysis of Total Distributive Income/Payment Items by Type of Partner (Schedule K only).—For each type of partner shown, enter the portion of the amount shown on line 20a of Schedule K that was allocated to that type of partner. The sum of the amounts shown on line 20b must equal the amount shown on line 20a.

In classifying partners who are individuals as "active" or "passive," the partnership should apply the rules below. In applying these rules, a partnership should classify each partner to the best of its knowledge and belief. It is assumed that in most cases the level of a particular partner's participation in an activity will be apparent:

1. If the partnership's principal activity is a trade or business, classify a general partner as "active" if the partner materially participated in all partnership trade or business activities; otherwise, classify a general partner as "passive."

2. If the partnership's principal activity consists of a working interest in an oil or gas well, classify a partner holding a working interest in the oil or gas well through an entity that does not limit the partner's liability as "active"; otherwise, classify the partner as "passive."

3. If the partnership's principal activity is a rental real estate activity, classify a general partner as "active" if the partner actively participated in all of the partnership's rental real estate activities;

otherwise, classify a general partner as "passive."

4. If the partnership's principal activity is a portfolio activity, classify all partners as "active."

5. Classify all limited partners and all partners in a partnership whose principal activity is a rental activity other than a rental real estate activity as "passive."

6. If the partnership cannot make a reasonable determination whether a partner's participation in a trade or business activity is material or whether a partner's participation in a rental real estate activity is active, classify the partner as "passive."

Line 21 (Schedule K-1 only)

Enter in the line 21 Supplemental Information space of Schedule K-1, or on an attached schedule if more space is needed, each partner's share of any information asked for on lines 7 through 20 that is required to be reported in detail, and items **a** through **o** below. Please identify the applicable line number next to the information entered in the Supplemental Information space. Show income or gains as a positive number. Show losses in parentheses.

a. Taxes paid on undistributed capital gains by a regulated investment company. As a shareholder of a regulated investment company, the partnership will receive notice on **Form 2439,** Notice to Shareholder of Undistributed Long-Term Capital Gains, that the company paid tax on undistributed capital gains.

b. The number of gallons of each fuel used during the tax year and the appropriate tax rate for each type of use identified on **Form 4136,** Credit for Federal Tax on Fuels, and in the related instructions. Each partner's share of the credit for qualified diesel-powered highway vehicles as shown on Form 4136.

c. The partner's share of gross income from each property, share of production for the tax year, etc., needed to figure the partner's depletion deduction for oil and gas wells. The partnership should also allocate to each partner a proportionate share of the adjusted basis of each partnership oil or gas property. The allocation of the basis of each property is made as specified in section 613A(c)(7)(D).

The partnership cannot deduct depletion on oil and gas wells. The partner must determine the allowable amount to report on his or her return. See Pub. 535 for more information.

d. Tax-exempt interest income, including exempt-interest dividends received as a shareholder in a mutual fund or other regulated investment company.

e. Recapture of expense deduction for recovery property (section 179). For property placed in service after 1986, the section 179 expense deduction is recaptured at any time the business use of the property drops to 50% or less. Enter the amount that was originally passed through to the partners and the partnership's tax year in which the amount was passed through. Tell the partner if the recapture amount was caused by the disposition of the recovery property. Do not include this amount in the partnership's income.

f. Any items the partners need to determine the basis of their interest for purposes of section 704(d) because Schedule M and Item K on Schedule K-1 are not completed; or any items (other than those shown in Item B) the partners need to figure their amount at risk.

g. Any information or statements the partners need to comply with section 6111 (registration of tax shelters) or section 6662(d)(2)(B)(ii) (regarding adequate disclosure of items that may cause an understatement of income tax).

h. The partner's share of farm production expenses, if the partnership is not required to use the accrual method of accounting. See Temporary Regulations section 1.263A-1T(c).

i. Any information needed by a partner to compute the interest due under section 453(l)(3). If the partnership elected to report the disposition of certain timeshares and residential lots on the installment method, each partner's tax liability must be increased by the partner's allocable share of the interest on tax attributable to the installment payments received during the tax year.

j. Any information needed by a partner to compute interest due under section 453A(c). If an obligation arising from the disposition of property to which section 453A applies is outstanding at the close of the year, report each partner's allocable share of the outstanding installment obligation to which section 453A(b) applies.

k. For closely held partnerships (as defined in section 460(b)(5)), provide the information needed by a partner to compute the partner's allocable share of any interest due or to be refunded under the look-back method of section 460(b)(3) on certain long-term contracts entered into after February 28, 1986, that are accounted for under either the percentage of completion-capitalized cost method or the percentage of completion method. Also attach to Form 1065 the information specified in the instructions for line 2, Form 8697, for each tax year in which such a long-term contract is completed.

l. Any information needed by a partner relating to interest expense that the partner is required to capitalize. Under section 263A, a partner may be required to capitalize interest expense incurred by the partner during the tax year with respect to the production expenditures of the partnership. Similarly, interest incurred by a partnership may have to be capitalized by a partner with respect to the partner's own production expenditures. The information required by the partner to properly capitalize interest for this purpose must be provided on an attachment to Schedule K-1. See Notice 88-99 for more information.

m. Any information a partner that is a tax-exempt organization may need to compute that partner's share of unrelated business taxable income under section 512(a)(1) (but excluding any modifications required by paragraphs (8) through (15) of section 512(b)).

Note: *Partners are required to notify the partnership of their tax-exempt status.*

n. Investment in property qualifying for the regular or business energy investment credit. Complete and attach Form 3468 to Form 1065. See Form 3468 and the related instructions for information on eligible property and the lines on Form 3468 to complete. Do not include that part of the cost of the property the partnership has elected to expense under section 179. Attach to each Schedule K-1 a separate schedule in a format similar to that shown on Form 3468 detailing each partner's share of any regular investment credit property, qualified energy property, and qualified rehabilitation expenditures not related to rental real estate activities. Also indicate the lines of Form 3468 on which the partners should report these amounts.

o. Any other information a partner may need to file his or her return that is not shown anywhere else on Schedule K-1. For example, if one of the partners is a pension plan, that partner may need special information to properly file its tax return.

Codes for Principal Business Activity and Principal Product or Service

These codes for the Principal Business Activity are designed to classify an enterprise by the type of activity in which it is engaged to facilitate the administration of the Internal Revenue Code. Though similar in format and structure to the Standard Industrial Classification Codes (SIC), they should not be used as SIC codes.

Using the list below, enter on page 1, Item C, the code for the specific industry group for which the largest percentage of "total assets (Schedule L, line 14, column (d))" is used.

In Item A, state the principal business activity. In Item B, state the principal product or service which accounts for the largest percentage of total assets. For example, if the principal business activity is "Retail food store," the principal product or service may be "dairy products."

Agriculture, Forestry, and Fishing

Code

Farms:

0120 Field crop.
0160 Vegetable and melon farms.
0170 Fruit and nut tree farms.
0180 Horticultural specialty.
0211 Beef cattle feedlots.
0212 Beef cattle, except feedlots.
0215 Hogs, sheep, and goats.
0240 Dairy farms.
0250 Poultry and eggs.
0260 General livestock (except animal specialty).
0270 Animal specialty.

Agricultural services and forestry:

0740 Veterinary services.
0753 Livestock breeding.
0754 Animal services, except livestock breeding and veterinary.
0780 Landscape and horticultural services.
0790 Other agricultural services.
0800 Forestry, except logging.
2400 Logging

Fishing, hunting, and trapping:

0930 Commercial fishing, hatcheries, and preserves.
0970 Hunting, trapping, and game propagation.

Mining

1000 Metal mining.
1200 Coal mining.
1300 Oil and gas extraction.
1400 Nonmetallic minerals except fuel.

Construction

General building contractors and operative builders:

1510 General building contractors.
1531 Operative builders.

Heavy construction contractors:

1611 Highway and street construction.
1620 Heavy construction, except highway.

Special trade contractors:

1711 Plumbing, heating, and air conditioning.
1721 Painting, paperhanging, and decorating.
1731 Electrical work.
1740 Masonry, drywall, stone, tile.
1750 Carpentering and flooring.
1761 Roofing, siding, and sheet metal.
1771 Concrete work.
1781 Water well drilling.
1790 Other building trade contractors (excavation, glazing, etc.)

Manufacturing

2000 Food and kindred products.
2200 Textile mill products.
2300 Apparel and other textile products.
2400 Lumber and wood products, except furniture.
2500 Furniture and fixtures.
2700 Printing, publishing, and allied industries.
2800 Chemicals and allied products.
3000 Rubber and plastic products.
3100 Leather and leather products.
3200 Stone, clay, and glass products.
3300 Primary metal industries.
3400 Fabricated metal products.
3500 Machinery, except electrical.
3600 Electrical and electronic equipment.
3700 Transportation equipment.
3970 Other manufacturing industries.

Code

Transportation, Communication, Electric, Gas, and Sanitary Services

Local and interurban passenger transit:

4121 Taxicabs.
4189 Other passenger transportation.

Trucking and warehousing:

4210 Trucking (local and long distance), except trash collection.
4216 Trash collection without own dump.
4220 Public warehousing.

Other transportation including transportation services:

4400 Water transportation.
4540 Transportation by air.
4722 Passenger transportation arrangement.
4799 Other transportation services.
4800 Communication.
4900 Utilities, including dumps, snowplowing, etc.

Wholesale Trade—Selling Goods to Other Businesses, Government, or Institutions, etc.

Durable goods, including machinery, equipment, wood, metals, etc.:

5001 Selling for your own account.
5002 Agent or broker for other firms–more than 50% of gross sales on commission.

Nondurable goods, including food, fiber, chemicals, etc.:

5101 Selling for your own account.
5102 Agent or broker for other firms–more than 50% of gross sales on commission.

Retail Trade

Building materials, hardware, garden supply, and mobile home dealers:

5211 Lumber and other building materials dealers.
5231 Paint, glass, and wallpaper stores.
5251 Hardware stores.
5261 Retail nurseries and garden stores.
5271 Mobile home dealers.

General merchandise:

5331 Variety stores.
5398 Other general merchandise stores.

Food stores:

5411 Grocery stores.
5420 Meat and fish markets freezer provisioners.
5431 Fruit stores and vegetable markets.
5441 Candy, nut, and confectionery stores.
5451 Dairy products stores.
5460 Retail bakeries.
5490 Other food stores.

Automotive dealers and service stations:

5511 New car dealers (franchised).
5521 Used car dealers.
5531 Auto and home supply stores.
5541 Gasoline service stations.
5551 Boat dealers.
5561 Recreational vehicle dealers.
5571 Motorcycle dealers.
5599 Aircraft, and other automotive dealers.

Apparel and accessory stores:

5611 Men's and boys' clothing and furnishings.
5621 Women's ready-to-wear stores.
5631 Women's accessory and specialty stores.
5641 Children's and infants' wear stores.
5651 Family clothing stores.
5661 Shoe stores.
5681 Furriers and fur shops.
5699 Other apparel and accessory stores.

Code

Furniture, home furnishings, and equipment stores:

5712 Furniture stores.
5713 Floor covering stores.
5714 Drapery, curtain, and upholstery stores.
5719 Home furnishings, except appliances.
5722 Household appliance stores.
5732 Radio and television stores.
5733 Music stores.
5734 Computer and software stores.

Eating and drinking places:

5812 Eating places.
5813 Drinking places.

Miscellaneous retail stores:

5912 Drug stores and proprietary stores.
5921 Liquor stores.
5932 Used merchandise and antique stores (except motor vehicle parts).
5941 Sporting goods stores and bicycle shops.
5942 Book stores.
5943 Stationery stores.
5944 Jewelry stores.
5945 Hobby, toy, and game shops.
5946 Camera and photographic supply stores.
5947 Gift, novelty, and souvenir shops.
5948 Luggage and leather goods stores.
5949 Sewing, needlework, and piece goods stores.
5961 Mail order houses.
5962 Merchandising machine operators.
5963 Direct selling organizations.
5983 Fuel oil dealers.
5984 Liquefied petroleum gas (bottled gas) dealers.
5989 Other fuel dealers (except gasoline)
5992 Florists.
5996 Other miscellaneous retail stores.

Finance, Insurance, and Real Estate

6000 Banking.
6100 Credit agencies other than banks.

Security and commodity brokers, dealers, exchanges, and services:

6212 Security underwriting syndicates.
6218 Security brokers and dealers, except underwriting syndicates.
6299 Commodity contracts brokers and dealers; security and commodity exchanges; and allied services.

Real estate:

6411 Insurance agents, brokers, and services.
6511 Real estate operators (except developers) and lessors of buildings.
6520 Lessors of real property other than buildings.
6531 Real estate agents, brokers, and managers.
6541 Title abstract offices.
6552 Subdividers and developers, except cemeteries.
6553 Cemetery subdividers and developers.

Holding and other investment companies:

6746 Investment clubs.
6747 Common trust funds.
6748 Other holding and investment companies.

Services

Hotels and other lodging places:

7012 Hotels.
7013 Motels, motor hotels, and tourist courts.
7021 Rooming and boarding houses.
7032 Sporting and recreational camps.
7033 Trailer parks and camp sites.

Code

Personal services:

7215 Coin-operated laundries and dry cleaning.
7219 Other laundry, cleaning, and garment services.
7221 Photographic studios and portrait studios.
7231 Beauty shops.
7241 Barber shops.
7251 Shoe repair and hat cleaning shops.
7261 Funeral services and crematories.
7291 Income tax preparation.
7299 Miscellaneous personal services.

Business services:

7310 Advertising.
7340 Janitorial and window cleaning.
7350 Equipment rental and leasing
7370 Computer and data processing services.
7398 Other business services.

Automotive repair and services:

7510 Automotive rentals and leasing, without drivers.
7520 Automobile parking.
7538 General automobile repair shops.
7539 Other automotive repair shops.
7540 Automotive services, except repair.

Miscellaneous repair services:

7622 Radio and TV repair shops.
7628 Electrical repair shops, except radio and TV.
7641 Reupholstery and furniture repair.
7680 Other miscellaneous repair shops.

Motion picture:

7812 Other motion picture and TV film and tape activities.
7830 Motion picture theaters.
7840 Video tape rental stores.

Amusement and recreation services:

7920 Producers, orchestras, and entertainers.
7933 Bowling alleys.
7941 Professional sports clubs and promoters.
7948 Racing, including track operation.
7980 Other amusement and recreation services.
7991 Physical fitness facilities.

Medical and health services:

8011 Offices and clinics of medical doctors (MD's).
8021 Offices and clinics of dentists.
8031 Offices of osteopathic physicians.
8041 Offices of chiropractors.
8042 Offices of optometrists.
8047 Other licensed health practitioners.
8048 Registered and practical nurses.
8050 Nursing and personal care facilities.
8060 Hospitals.
8072 Dental laboratories.
8098 Other medical and health services.

Other services:

8111 Legal services.
8200 Educational services.
8351 Child day care.
8722 Certified public accountants.
8723 Other accounting, auditing, and bookkeeping services.
8740 Management, consulting, and public relations services.
8911 Engineering and architectural services.
8999 Other services not classified elsewhere.

1990

Department of the Treasury
Internal Revenue Service

Instructions for Form 4562

Depreciation and Amortization

(Section references are to the Internal Revenue Code, unless otherwise noted.)

General Instructions

Paperwork Reduction Act Notice

We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping . . . . 33 hrs., 43 min.
Learning about the law or the form . . . . 3 hrs., 41 min.
Preparing and sending the form to IRS . . . . 4 hrs., 23 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to both IRS and the Office of Management and Budget at the addresses listed in the instructions for the tax return with which this form is filed.

Changes You Should Note

- Cellular telephones placed in service in tax years beginning after 1989 are "listed property" and must be reported in Part V.
- Beginning in 1990, individual and other noncorporate taxpayers (including S corporations) will not be required to complete or attach Form 4562 to their tax returns if their only depreciation deduction is for assets (other than listed property) placed in service before 1990. Instead, these taxpayers will enter their deduction for depreciation directly on the appropriate line of the tax return. See "Who Must File" below.

Purpose of Form

Use Form 4562 to claim your deduction for depreciation and amortization; to make the election to expense certain tangible property (section 179); and to provide information on the business use of automobiles and other listed property.

Who Must File

You must complete and file Form 4562 if you are claiming:

- Depreciation for property placed service during the 1990 tax year;
- A section 179 expense deduction (which may include a carryover from a previous year);
- Depreciation on any listed property (regardless of when it was placed in service); or
- Amortization of costs that begins during the 1990 tax year.

All corporations (other than S corporations) must also file Form 4562 for any depreciation claimed on assets acquired in previous tax years.

You should prepare and submit a separate Form 4562 for each business or activity on your return. If more space is needed, attach additional sheets. However, complete only one Part I in its entirety when computing your allowable section 179 expense deduction.

Definitions

Depreciation.— Depreciation is the annual deduction allowed to recover the cost or other basis of business or income producing property with a determinable useful life of more than one year. However, land and goodwill are not depreciable.

Depreciation starts when you first use the property in your business. It ends when you take the property out of service, deduct all your depreciable cost or other basis, or no longer use the property in your business. For additional information, see **Pub. 534,** Depreciation, and **Pub. 917,** Business Use of a Car.

Amortization.—Amortization is similar to the straight line method of depreciation in that an annual deduction is allowed to recover certain costs over a fixed period of time. You can amortize such items as the costs of starting a business, reforestation, and pollution control facilities. For additional information, see **Pub. 535,** Business Expenses.

"Listed Property".—For a definition of "listed property" see Part V instructions.

Recordkeeping

Except for Part V, relating to listed property, IRS does not require you to submit detailed information with your return regarding the depreciation of assets placed in service in previous tax years. However, the information needed to compute your depreciation deduction (basis, method, etc.) must be part of your permanent records.

Since Form 4562 does not provide for permanent recordkeeping, Pub. 534 contains a blank worksheet and filled-in examples to assist you in maintaining depreciation records. However, the worksheet is designed only for Federal income tax purposes. You may need to keep additional records for accounting and State income tax purposes.

Specific Instructions

Part I.—Election To Expense Certain Tangible Property (Section 179)

Note: *An estate or trust cannot make this election. If you are married filing separately, see section 179(b)(4) for special limitations.*

You may make an irrevocable election to expense part of the cost of certain tangible personal property used in your trade or business and certain other property described in Pub. 534. To do so, you must have purchased the property (as defined in section 179(d)(2)) and placed it in service during the 1990 tax year, or have a carryover of disallowed deduction from 1989. If you elect this deduction, the amount on which you figure your depreciation or amortization deduction must be reduced by the amount of the section 179 expense.

Note: *The following do not qualify as section 179 property:* ***(1)*** *property used 50% or less in your trade or business;* ***(2)*** *property held for investment (section 212 property);* ***(3)*** *most furnishings included in a rental dwelling (see section 48(a)(3)); and* ***(4)*** *portable air conditioners and space heaters.*

The section 179 expense deduction is subject to two separate limitations, both of which are figured in Part I:

(1) a dollar limitation; and
(2) a taxable income limitation.

In the case of a partnership, these limitations apply to the partnership and each partner. In the case of an S corporation, these limitations apply to the S corporation and each shareholder. In the case of a controlled group, all component members are treated as one taxpayer.

Line 1.—The maximum amount of section 179 deduction you can claim is $10,000. If you are married filing separately, your maximum deduction is $5,000, unless you and your spouse elect otherwise. However, the total deduction for both of you cannot be more than $10,000. If you are married filing separately, cross out the pre-printed "$10,000" on line 1 and enter in the margin "$5,000" (or whatever other amount you elect, not to exceed $10,000 for both spouses).

Line 2.—Enter the cost of all section 179 property placed in service during the tax year. Be sure to include amounts from any listed property from Part V.

Line 5.—If you placed $210,000 or more of section 179 property in service during the 1990 tax year, you cannot elect to expense any property. If line 5 is -0-, skip lines 6 through 11, enter -0- on line 12, and enter the carryover of disallowed deduction from 1989, if any, on line 13.

Line 6.—

Column (a)—Enter a brief description of the property for which you are making the election (e.g., truck, office furniture, etc.).

Column (b)—Enter the cost of the property. If you acquired the property through a trade-in, do not include any undepreciated basis of the assets you traded in. See **Pub. 551,** Basis of Assets, for more information.

Column (c)—Enter the amount that you elect to expense. You do not have to elect to expense the entire cost of the property. Whatever amount is not elected to be expensed can be depreciated. See line 14 and line 15 instructions below.

Line 9.—The tentative deduction represents the amount you may expense in 1990 or carry over to 1991. If this amount is less than the taxable income limitation on line 11, you may expense the entire

amount. If this amount is more than line 11, you may expense in 1990 only an amount equal to line 11. Any excess may be carried over to 1991.

Line 10.—The carryover of disallowed deduction from 1989 is the amount of section 179 property, if any, elected to be expensed in previous years, but not allowed as a deduction due to the taxable income limitation. If you filed Form 4562 for 1989, enter the amount from line 12 of your 1989 Form 4562. For additional information, see Pub. 534.

Line 11.—The section 179 expense deduction is further limited to the "taxable income" limitation under section 179(b)(3). For an individual, enter the aggregate net income from any active trade or business computed without regard to any section 179 expense deduction or the deduction for one-half of self-employment taxes under section 164(f). For all other entities, enter the taxable income computed without regard to any section 179 expense deduction. In any case, do not enter more than line 5.

Line 12.—The limitations on lines 5 and 11 apply to the taxpayer, and not to each separate business or activity. Therefore, if you have more than one business or activity, you may allocate your allowable section 179 expense deduction among them. To do so, write "Summary" at the top of Part I of the separate Form 4562 you are completing for the aggregate amounts from all businesses or activities. Do not complete the rest of that form. On line 12 of the Form 4562 you prepare for each separate business or activity, enter the amount allocated to the business or activity from the "Summary." No other entry is required in Part I of the separate Form 4562 prepared for each business or activity.

Part II.—MACRS Depreciation For Assets Placed in Service ONLY During Your 1990 Tax Year

Note: *The term "Modified Accelerated Cost Recovery System" (MACRS) includes the General Depreciation System and the Alternative Depreciation System. Generally, MACRS is used to depreciate any tangible property placed in service after 1986. However, MACRS does not apply to films, videotapes, and sound recordings. See section 168(f) for other exceptions.*

Depreciation may be an adjustment for alternative minimum tax (AMT) purposes. See the appropriate AMT form that you are required to file.

Lines 14a through h.—General Depreciation System (GDS).—Note: *Use lines 14a through 14h only for assets placed in service during the tax year beginning in 1990 and depreciated under the General Depreciation System, except for automobiles and other listed property (which are reported in Part V).*

Determine which property you acquired and placed in service during the tax year beginning in 1990. Then, sort that property according to its classification (3-year property, 5-year property, etc.) as shown in column (a) of lines 14a through 14h. The classifications for some property are shown below. For property not shown, see **Determining the Classification** below.

- 3-year property includes: (1) a race horse which is more than 2 years old at the time it is placed in service; and (2) any horse (other than a race horse) which is more than 12 years old at the time it is placed in service.
- 5-year property includes: (1) a light general purpose truck; (2) typewriters, calculators, copiers, and duplicating equipment; (3) any semi-conductor manufacturing equipment; (4) any computer or peripheral equipment; (5) any section 1245 property used in connection with research and experimentation; and (6) certain energy property specified in section 168(e)(3)(B)(vi).
- 7-year property includes: (1) office furniture and equipment; (2) railroad track; and (3) any property that does not have a class life and is not otherwise classified.
- 10-year property includes: (1) vessels, barges, tugs, and similar water transportation equipment; (2) any single purpose agricultural or horticultural structure (see section 48(p)); and (3) any tree or vine bearing fruit or nuts.
- 15-year property includes: (1) any municipal wastewater treatment plant; and (2) any telephone distribution plant and comparable equipment used for 2-way exchange of voice and data communications.
- 20-year property includes any municipal sewers.
- Residential rental property is a building in which 80 percent or more of the total rent is from dwelling units.
- Nonresidential real property is any real property other than residential rental property, or with a class life of less than 27.5 years.
- 50-year property includes any improvements necessary to construct or improve a roadbed or right-of-way for railroad track that qualifies as a railroad grading or tunnel bore under section 168(e)(4). There is no separate line to report 50-year property. Therefore, attach a statement showing the same information as required in columns (a) through (g). Include the deduction in the line 20 "Total" and write "See attachment" in the bottom margin of the form.

Determining the Classification.—If your depreciable property is **not** listed above, determine the classification as follows: First, find the property's class life. The class life of most property can be found in the Table of Class Lives and Recovery Periods in Pub. 534. Next, use the following table to find the classification in column (b) that corresponds to the class life of the property in column (a).

(a) Class life (in years) (See Pub. 534)	(b) Classification
4 or less	3-year property
More than 4 but less than 10	5-year property
10 or more but less than 16	7-year property
16 or more but less than 20	10-year property
20 or more but less than 25	15-year property
25 or more	20-year property

Column (b).—For lines 14g and 14h, enter the month and year the property was placed in service. If property held for personal use is converted to use in a trade or business or for the production of income, treat the property as being placed in service on the date of conversion.

Column (c).—To find the basis for depreciation, multiply the cost or other basis of the property by the percent of business use. From that result, subtract any section 179 expense deduction.

Column (d).—See the "Note" in the line 14, column (f) instructions below, for an election you can make to use the 150% declining balance method (for 3-, 5-, 7-, and 10-year property) of depreciation. If you do not elect to use the 150% method, determine the recovery period from the table below:

In the case of:	The applicable recovery period is:
3-year property	3 yrs.
5-year property	5 yrs.
7-year property	7 yrs.
10-year property	10 yrs.
15-year property	15 yrs.
20-year property	20 yrs.
Residential rental property	27.5 yrs.
Nonresidential real property	31.5 yrs.
Railroad gradings and tunnel bores	50 yrs.

If you elect the 150% declining balance method, you must use the recovery period under the Alternative Depreciation System discussed in the line 15 instructions on page 3. You will not have an adjustment for alternative minimum tax purposes on the property for which you make this election.

Column (e).—The applicable convention determines the portion of the tax year for which depreciation is allowable during a year property is either placed in service or disposed of. There are three types of conventions (discussed below). To select the correct convention, you must know: (1) when you placed the property in service; and (2) the type of property.

Half-year convention (HY).—This convention applies to all property reported on lines 14a through 14f, unless the mid-quarter convention applies. It does not apply to residential rental property, nonresidential real property, and railroad gradings and tunnel bores. It treats all property placed in service (or disposed of) during any tax year as placed in service (or disposed of) on the mid-point of such tax year.

Mid-quarter convention (MQ).—This convention applies instead of the half-year convention if the aggregate bases of property subject to depreciation under section 168 that is placed in service during the last 3 months of your tax year exceeds 40% of the aggregate bases of property subject to depreciation under section 168 that is placed in service during the entire tax year.

The mid-quarter convention treats all property placed in service (or disposed of) during any quarter as placed in service (or disposed of) on the mid-point of such quarter.

In determining whether the mid-quarter convention applies, do not take into account:

- property that is being depreciated under the pre-1987 rules;
- any residential rental property, nonresidential real property, or railroad gradings and tunnel bores; and
- property that is placed in service and disposed of within the same tax year.

Mid-month convention (MM).—This convention applies ONLY to residential rental property, nonresidential real property (lines 14g or 14h), and railroad gradings and

tunnel bores. It treats all property placed in service (or disposed of) during any month as placed in service (or disposed of) on the mid-point of such month.

Enter "HY" for half-year; "MQ" for mid-quarter; or "MM" for mid-month convention.

Column (f).—Applicable depreciation methods are prescribed for each classification of property. For 3-, 5-, 7-, and 10-year property the applicable method is the 200% declining balance method, switching to the straight line method in the first tax year that maximizes the depreciation allowance.

Note: *You may make an irrevocable election to use the 150% declining balance method for one or more classes of property (except for residential rental property, nonresidential real property, any railroad grading or tunnel bore, or any tree or vine bearing fruit or nuts). If you make this election, see "Alternative Depreciation System" below for the recovery period.*

For 15- and 20- year property, and property used in a farming business, the applicable method is the 150% declining balance method, switching to the straight line method in the first tax year that maximizes the depreciation allowance.

For residential rental property, nonresidential real property, any railroad grading or tunnel bore, or any tree or vine bearing fruit or nuts, the only applicable method is the straight line method.

You may also make an irrevocable election to use the straight line method for all property within a classification that is placed in service during the tax year.

Enter "200 DB" for 200% declining balance; "150 DB" for 150% declining balance; or "S/L" for straight line.

Column (g).—To compute the depreciation deduction you may:
(1) Use the optional Tables A through D at the end of these instructions. Multiply the applicable rate from the appropriate table by the property's **unadjusted** basis (column (c))(see Pub. 534 for complete tables); or
(2) Compute the deduction yourself.
To compute the deduction yourself, complete the following steps:

Step 1.—Determine the depreciation rate as follows:

(a) If you are using the 200% or 150% declining balance method in column (f), divide the declining balance rate (use 2.00 for 200 DB or 1.50 for 150 DB) by the number of years in the recovery period in column (d). For example, for property depreciated using the 200 DB method over a recovery period of 5 years, divide 2.00 by 5 for a rate of 40%.

(b) If you are using the straight line method, divide 1.00 by the remaining number of years in the recovery period as of the beginning of the tax year (but not less than one). For example, if there are 6½ years remaining in the recovery period as of the beginning of the year, divide 1.00 by 6.5 for a rate of 15.38%.

Note: *If you are using the 200% or 150% DB method, be sure to switch to the straight line rate in the first year that the straight line rate exceeds the declining balance rate.*

Step 2.—Multiply the percentage rate determined in Step 1 by the property's unrecovered basis (cost or other basis reduced by any section 179 expense deduction and all prior years' depreciation).

Step 3.—For property placed in service or disposed of during the current tax year, multiply the result from Step 2 by the applicable decimal amount from the tables below (based on the convention shown in column (e)).

Half-year (HY) convention	0.5

Mid-quarter (MQ) convention

Placed in service (or disposed of) during the:	Placed in service	Disposed of
1st quarter	0.875	0.125
2nd quarter	0.625	0.375
3rd quarter	0.375	0.625
4th quarter	0.125	0.875

Mid-month (MM) convention

Placed in service (or disposed of) during the:	Placed in service	Disposed of
1st month	0.9583	0.0417
2nd month	0.8750	0.1250
3rd month	0.7917	0.2083
4th month	0.7083	0.2917
5th month	0.6250	0.3750
6th month	0.5417	0.4583
7th month	0.4583	0.5417
8th month	0.3750	0.6250
9th month	0.2917	0.7083
10th month	0.2083	0.7917
11th month	0.1250	0.8750
12th month	0.0417	0.9583

Short Tax Years.—See Pub. 534 for rules on how to compute the depreciation deduction for property placed in service in a short tax year.

Line 15.—Alternative Depreciation System (ADS).— Note: *Lines 15a through 15c should be completed for assets, other than automobiles and other listed property, placed in service ONLY during the tax year beginning in 1990 and depreciated under the Alternative Depreciation System. Depreciation on assets placed in service in prior years is reported on line 16.*

Under ADS, depreciation is computed by using the applicable depreciation method, the applicable recovery period, and the applicable convention. The following types of property **must** be depreciated under ADS:

- any tangible property used predominantly outside the U.S.;
- any tax-exempt use property;
- any tax-exempt bond financed property;
- any imported property covered by an executive order of the President of the United States; and
- any property used predominantly in a farming business and placed in service during any tax year in which you made an election under section 263A(d)(3).

Instead of depreciating property under GDS (line 14), you may make an irrevocable election with respect to any classification of property for any tax year to use ADS. For residential rental and nonresidential real property, you may make this election separately for each property.

Note: *See section 168(g)(3)(B) for a special rule for determining the class life for certain property.*

If the property does not have a class life, use line 15b.

For residential rental and nonresidential real property, use line 15c.

For railroad gradings and tunnel bores, the recovery period is 50 years.

Column (b).—For 40-year property, enter the month and year it was placed in service, or converted to use in a trade or business, or for the production of income.

Column (c).—See the instructions for line 14, column (c).

Column (d).—Under ADS, the recovery period is generally the class life. However, when looking up the recovery period in Pub. 534, be sure to look under the heading "Alternate MACRS."

Column (e).—Under ADS, the applicable conventions are the same as those used under GDS. See the instructions for line 14, column (e).

Column (f).—Under ADS, the only applicable method is the straight line method.

Column (g).—The depreciation deduction is computed in the same manner as under GDS except you must apply the straight line method over the ADS recovery period and use the applicable convention.

Part III.—Other Depreciation

Note: *Do not use Part III for automobiles and other listed property. Instead, report this property in Part V on page 2 of Form 4562.*

Use Part III for:

- ACRS property (pre-'87 rules);
- property placed in service before 1981;
- certain public utility property, which does not meet certain normalization requirements;
- certain property acquired from related persons;
- property acquired in certain nonrecognition transactions; and
- certain sound recordings, movies, and videotapes.

Line 16.—GDS and ADS deduction for assets placed in service in tax years beginning before 1990.—For assets placed in service after 1986, and depreciated under post-'86 rules, enter the GDS and ADS deduction for the current year. To compute the deduction, see the instructions for column (g), line 14.

Line 17.—Property subject to section 168(f)(1) election.—Report property that you elect, under section 168(f)(1), to depreciate by the unit-of-production method or any other method not based on a term of years (other than the retirement-replacement-betterment method).

Attach a separate sheet, showing:
(1) a description of the property and the depreciation method you elect that excludes the property from ACRS or MACRS; and (2) the depreciable basis (cost or other basis reduced, if applicable, by salvage value, investment credit, and the section 179 expense deduction).

Line 18.—ACRS and other depreciation.—Enter the total depreciation attributable to assets, other than automobiles and other listed property, placed in service before 1981 (pre-ACRS), property subject to ACRS, or property that cannot otherwise be depreciated under ACRS. For ACRS property, unless you use an alternate percentage, multiply the

property's unadjusted basis by the applicable percentage as follows:

3-year property—1st year (25%), 2nd year (38%), 3rd year (37%);

5-year property—1st year (15%), 2nd year (22%), 3rd through 5th year (21%);

10-year property—1st year (8%), 2nd year (14%), 3rd year (12%), 4th through 6th year (10%), 7th through 10th year (9%);

15-year public utility property—1st year (5%), 2nd year (10%), 3rd year (9%), 4th year (8%), 5th and 6th year (7%), 7th through 15th year (6%);

15-year, 18-year, and 19-year real property and low-income housing—Use the tables in Pub. 534.

If you elected an alternate percentage for any property listed above, use the straight line method over the recovery period you chose in the prior year. See Pub. 534 for more information and tables.

Note: *Taxpayers placing property in service after 1986 who are covered by transitional rules should figure their depreciation using the rules for assets placed in service before 1987. See sections 203 and 204 of the Tax Reform Act of 1986 as amended by the Technical and Miscellaneous Revenue Act of 1988 for more information.*

Include any amounts attributable to the Class Life Asset Depreciation Range (CLADR) system. If you previously elected the CLADR system, you must continue to use it to depreciate assets left in your vintage accounts. You must continue to meet recordkeeping requirements.

If you elect CLADR for assets that do not qualify for ACRS, attach a statement that specifies the items that still apply to those listed in Regs. section 1.167(a)-11(f)(2).

Prior years' depreciation, plus current year's depreciation, can never exceed the depreciable basis of the property.

The basis and amounts claimed for depreciation should be part of your permanent books and records. **No attachment is necessary.**

Line 20.—A partnership or S corporation does not include any section 179 expense deduction (line 12) on this line. Any section 179 expense deduction is passed through separately to the partners and shareholders on the appropriate line of their Schedules K-1.

Line 21—Section 263A Uniform Capitalization Rules.—If you are subject to the uniform capitalization rules of section 263A, enter the increase in basis from costs that are required to be capitalized. For a detailed discussion of who is subject to these rules, which costs must be capitalized, and allocation of costs among activities, see Temp. Regs. section 1.263A-1T.

Part V.— Automobiles and Other Listed Property

All taxpayers claiming any depreciation for automobiles and other listed property, regardless of the tax year such property was placed in service, must provide the information requested in Part V. However, employees claiming the standard mileage allowance or actual expenses (including depreciation) must use **Form 2106,** Employee Business Expense, instead of Part V. Listed property includes, but is not limited to:

- Passenger automobiles weighing 6,000 pounds or less.
- Any other property used for transportation if the nature of the property lends itself to personal use, such as motorcycles, pick-up trucks, etc.
- Any property used for entertainment or recreational purposes (such as photographic, phonographic, communication, and video recording equipment).
- Cellular telephones (or other similar telecommunications equipment).
- Computers or peripheral equipment.

Listed property does not include: (1) photographic, phonographic, communication, or video equipment used exclusively in a taxpayer's trade or business or regular business establishment; (2) any computer or peripheral equipment used exclusively at a regular business establishment and owned or leased by the person operating the establishment; or (3) an ambulance, hearse, or vehicle used for transporting persons or property for hire.

If any "listed property" placed in service after June 18, 1984, was used more than 50% in a trade or business in the year it was placed in service, and used 50% or less in a later year, part of the depreciation, section 179 expense deduction, and investment credit may have to be recaptured in the later year. Figure the depreciation and section 179 expense deduction to be recaptured on **Form 4797**, Sales of Business Property. Figure the investment credit to be recaptured on **Form 4255,** Recapture of Investment Credit.

Section A.—Depreciation

Lines 23 and 24.—

Column (a).—List on a property-by-property basis all of your listed property in the following order:

(1) Automobiles and other vehicles; and

(2) Other listed property (computers and peripheral equipment, etc.).

In column (a), list the make and model of automobiles, and give a general description of the listed property.

If you have more than five vehicles used 100% in your trade or business, you may group them by tax year. Otherwise, list all vehicles separately.

Column (b).—Enter the date the property was placed in service. If property held for personal use is converted to use in a trade or business or for the production of income, treat the property as placed in service on the date of conversion.

Column (c).—Enter the percentage of business use. For automobiles and other "vehicles," this is determined by dividing the number of miles the vehicle is driven for trade or business purposes during the year (not to include any commuting mileage) by the total number of miles the vehicle is driven for any purpose. Treat vehicles used by employees (who are not more than 5% owners) as being used 100% in the trade or business if the value of personal use is included in the employees' gross income, or the employees reimburse the employer for the personal use.

Employers who report the amount of personal use of the vehicle in the employee's gross income, and withhold the appropriate taxes, should enter "100%" for the percentage of business use. For more information, see Pub. 917. For listed property (such as computers or video equipment), allocate the use based on the most appropriate unit of time the property is actually used. See Temp. Regs. 1.280F-6T.

If you have property that is used solely for personal use that is converted to business use during the tax year, figure the percentage of business use only for the number of months the property is used in your business. Multiply that percentage by the number of months the property is used in your business, and divide the result by 12.

Column (e).— Multiply column (d) by the percentage in column (c). From that result, subtract any section 179 expense deduction and half of any investment credit taken before 1986 (unless you took the reduced credit). For automobiles and other listed property placed in service after 1985 (i.e., "transition property"), reduce the depreciable basis by the entire investment credit.

Column (f).—Enter the recovery period. For property placed in service after 1986 and used more than 50% in your trade or business, use the table in the line 14, column (d) instructions. For property placed in service after 1986 and used 50% or less in your trade or business, you must use the Alternative Depreciation System. Enter 5 years for automobiles and computers placed in service after 1986. If placed in service before 1987, enter 5 years for automobiles and 12 years for computers.

Column (g).—Enter the method of figuring your depreciation deduction. Write "200 DB," "150 DB," or "S/L," for the depreciation method, and "HY," "MM," or "MQ," for half-year, mid-month, or mid-quarter conventions, respectively. For property placed in service before 1987, write "PRE" if you used the prescribed percentages under ACRS. If you elected an alternate percentage, enter "S/L."

Column (h).—Caution: *See "Limitations for automobiles" below before entering an amount in column (h).*

If column (c) shows more than 50% use in a trade or business (line 23), and the property was placed in service after 1986, figure column (h) by following the instructions for line 14, column (g). If placed in service before 1987, multiply column (e) by the applicable percentages given in the line 18 instructions for ACRS property. If the recovery period for the property ended before your tax year beginning in 1990, enter your unrecovered basis, if any, in column (h).

If column (c) shows 50% or less use in a trade or business (line 24), and the property was placed in service after 1986, figure column (h) by dividing column (e) by column (f) and using the same conventions as discussed in the instructions for line 14, column (e). For automobiles placed in service: (1) during your tax year beginning in 1986, multiply column (e) by 20%; (2) during your tax year beginning in 1985, multiply column (e) by 10%; or (3) after June 18, 1984, and before your tax year beginning in 1985, enter your unrecovered basis, if any, in column (h). For computers placed in service after June 18, 1984, and before 1987, multiply column (e) by 8.333%.

For property used 50% or less in a qualified trade or business, no section 179 expense deduction is allowed.

For property placed in service before 1987 that was disposed of during the year, enter zero.

Limitations for automobiles.—The depreciation deduction plus section 179 expense deduction for automobiles is limited for any tax year. The limitation depends on when you placed the property in service. Use Table E on page 5 to determine the limitation. For any automobile you list on line 23 or 24, the total of columns (h) and (i) for that automobile cannot exceed the limit shown in Table E.

Note: *These limitations are further reduced when the business use percentage (column (c)) is less than 100%. For example, if an automobile placed in service in 1990 is used 60% for business, then the first year depreciation plus section 179 expense deduction is limited to 60 percent of $2,660, which is $1,596.*

Column (i).—Enter the amount you choose to expense for property used more than 50% in a qualified business use (subject to the limitations for automobiles noted above). Be sure to include the total cost of such property on line 2, page 1.

Section B.—Information Regarding Use of Vehicles

The information requested in Questions 27 through 33 must be completed for each vehicle identified in Section A.

Employees must provide their employers with the information requested in Questions 27 through 33 for each automobile or vehicle provided for their use.

Employers providing more than five vehicles to their employees, who are not more than 5% owners or related persons, are not required to complete Questions 27 through 33 for such vehicles. Instead, they must obtain this information from their employees, check "Yes" to Question 37, and retain the information received as part of their permanent records.

Section C.—Questions For Employers Who Provide Vehicles For Use By Their Employees

For employers providing vehicles to their employees, a written policy statement regarding the use of such vehicles, if initiated and kept by the employer, will relieve the employee of keeping separate records for substantiation.

There are two types of written policy statements that will satisfy the employer's substantiation requirements under section 274(d).

Line 34.—Prohibits Personal Use (including commuting):

This policy must meet the following conditions:

- The vehicle is owned or leased by the employer and is provided to one or more employees for use in the employer's trade or business;
- When the vehicle is not used in the employer's trade or business, it is kept on the employer's business premises, unless it is temporarily located elsewhere, for example, for maintenance or because of a mechanical failure;

Table A.—General Depreciation System
Method: 200% declining balance switching to straight line
Convention: half-year

	If the recovery period is:			
Year	3 yrs.	5 yrs.	7 yrs.	10 yrs.
1	33.33%	20.00%	14.29%	10.00%
2	44.45%	32.00%	24.49%	18.00%
3	14.81%	19.20%	17.49%	14.40%
4	7.41%	11.52%	12.49%	11.52%
5		11.52%	8.93%	9.22%

Table B.—General and Alternative Depreciation System
Method: 150% declining balance switching to straight line
Convention: half-year

	If the recovery period is:					
Year	5 yrs.	7 yrs.	10 yrs.	12 yrs.	15 yrs.	20 yrs.
1	15.00%	10.71%	7.50%	6.25%	5.00%	3.750%
2	25.50%	19.13%	13.88%	11.72%	9.50%	7.219%
3	17.85%	15.03%	11.79%	10.25%	8.55%	6.677%
4	16.66%	12.25%	10.02%	8.97%	7.70%	6.177%
5	16.66%	12.25%	8.74%	7.85%	6.93%	5.713%

Table C.—General Depreciation System
Method: Straight line
Convention: Mid-month
Recovery period: 27.5 years

	The month in the 1st recovery year the property is placed in service:											
Year	1	2	3	4	5	6	7	8	9	10	11	12
1	3.485	3.182	2.879	2.576	2.273	1.970	1.667	1.364	1.061	0.758	0.455	0.152%
2-8	3.636	3.636	3.636	3.636	3.636	3.636	3.636	3.636	3.636	3.636	3.636	3.636%

Table D.—General Depreciation System
Method: Straight line
Convention: Mid-month
Recovery period: 31.5 years

	The month in the 1st recovery year the property is placed in service:											
Year	1	2	3	4	5	6	7	8	9	10	11	12
1	3.042	2.778	2.513	2.249	1.984	1.720	1.455	1.190	0.926	0.661	0.397	0.132%
2-7	3.175	3.175	3.175	3.175	3.175	3.175	3.175	3.175	3.175	3.175	3.175	3.175%

Table E.—Limitations for automobiles

Year of Deduction	after: but before:	If placed in service— 6/18/84 1/1/85	12/31/84 4/3/85	4/2/85 1/1/87	12/31/86 1/1/89	12/31/88 1/1/91
1st tax year		4,000	4,100	3,200	2,560	2,660
2nd tax year		6,000	6,200	4,800	4,100	4,200
3rd tax year		6,000	6,200	4,800	2,450	2,550
each succeeding tax year		6,000	6,200	4,800	1,475	1,475

- No employee using the vehicle lives at the employer's business premises;
- No employee may use the vehicle for personal purposes, other than *de minimis* personal use (such as a stop for lunch between two business deliveries); and
- Except for *de minimis* use, the employer reasonably believes that no employee uses the vehicle for any personal purpose.

Line 35.—Prohibits Personal Use (except for commuting). This policy is NOT available if the commuting employee is an officer, director, or 1% or more owner.

This policy must meet the following conditions:

- The vehicle is owned or leased by the employer and is provided to one or more employees for use in the employer's trade or business and is used in the employer's trade or business;
- For bona fide noncompensatory business reasons, the employer requires the employee to commute to and/or from work in the vehicle;
- The employer establishes a written policy under which the employee may not use the vehicle for personal purposes, other than commuting or *de minimis* personal use (such as a stop for a personal errand between a business delivery and the employee's home);
- Except for *de minimis* use, the employer reasonably believes that the employee does

not use the vehicle for any personal purpose other than commuting; and

- The employer accounts for the commuting use by including an appropriate amount in the employee's gross income.

For both written policy statements, there must be evidence that would enable the IRS to determine whether use of the vehicle meets the conditions stated above.

Line 38.—An automobile is considered to have qualified demonstration use if the employer maintains a written policy statement that:

- prohibits its use by individuals other than full-time automobile salesmen;
- prohibits its use for personal vacation trips;
- prohibits storage of personal possessions in the automobile; and
- limits the total mileage outside the salesmen's normal working hours.

Part VI.—Amortization

Each year you may elect to deduct part of certain capital costs over a fixed period. If you amortize property, the part you amortize does not qualify for the election to expense certain tangible property or depreciation.

For individuals reporting amortization of bond premium for bonds acquired before October 23, 1986, do not report the deduction here. See the instructions for Schedule A (Form 1040).

For taxpayers (other than corporations) claiming a deduction for amortization of bond premium for bonds acquired after October 22, 1986, but before January 1, 1988, the deduction is treated as interest expense and is subject to the investment interest limitations. Use **Form 4952,** Investment Interest Expense Deduction, to compute the allowable deduction.

For taxable bonds acquired after 1987, the amortization offsets the interest income. See **Pub. 550,** Investment Income and Expenses.

Line 39.—Complete line 39 only for those costs for which the amortization period begins during your tax year beginning in 1990.

Column (a).—Describe the costs you are amortizing. You may amortize —

- Pollution control facilities (section 169, limited by section 291 for corporations).
- Certain bond premiums (section 171).
- Research and experimental expenditures (section 174).
- Qualified forestation and reforestation costs (section 194).
- Business start-up expenditures (section 195).
- Organizational expenditures for a corporation (section 248) or partnership (section 709).
- Optional write off of certain tax preferences over the period specified in section 59(e).

Column (b).—Enter the date the amortization period begins under the applicable Code section.

Column (c).—Enter the total amount you are amortizing. See the applicable Code section for limits on the amortizable amount.

Column (d).—Enter the Code section under which you amortize the costs.

Column (f).—Compute the amortization deduction by: (1) dividing column (c) by the number of years over which the costs are to be amortized; or (2) multiplying column (c) by the percentage in column (e).

Attach any other information the Code and regulations may require to make a valid election. See Pub. 535 for more information.

Line 40.—Enter the amount of amortization attributable to those costs for which the amortization period began before 1990.

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